BUSINESSES IN EXPANSION AND MANUFACTURERS: OPPORTUNITIES AND NEEDS – BDC ViewPoints survey

Research and Market Intelligence at BDC – June 2013
Executive summary

METHODOLOGY

> 140 Canadian business professionals, members of the BDC ViewPoints panel, completed this online survey between May 28 and June 9, 2013.

> We only asked business professionals with clients in the Manufacturing sector, or in businesses in high growth or expansion, to complete this survey.

MAIN FINDINGS

> Nearly two thirds of professionals define access to financing as being difficult for manufacturers. This ratio climbs to nearly three quarters when defining access to financing for businesses in growth or expansion stages.

> Commercial banks and credit unions are the main financing providers, followed by personal funding and government organizations such as BDC. More than one third of respondents indicated that their clients obtained financing from private sources.

> Professionals reported that their clients who did not receive financing approvals either did not meet certain criteria, or the company’s situation was deemed unfavourable.

> Nearly 90% of professionals recommended a particular type of financing to their clients.

  – Term loans and operating line of credits are the type of financing most often recommended.

  – The proportion of recommendations made by professionals is quite indicative of the role they play in an entrepreneur’s decision-making process.

> Three quarters of professionals perceive a gap or insufficient access to financing for manufacturers or for businesses in growth or expansion stages.

  – In their opinion, this is primarily due to risk aversion, weight put on the company’s past history and high requirements on the part of the entrepreneurs.

> Although four out of five professionals say they are familiar with quasi-equity, only one in five is very familiar with it.

> Professionals see value for their clients in face-to-face business support from a financial advisor, executive coaching or mentoring, new networking opportunities and in-person training sessions.
Executive summary (continued)

MAIN FINDINGS (continued)

Specific needs
> Professionals identify three levels of specific needs
  1. Working capital
  2. Equipment and inventory financing
  3. Support from government

Main challenges faced by manufacturers and businesses in growth and expansion
> Challenges are on three levels
  1. Access to financing
  2. Competition
  3. Retaining and recruiting skilled workers

Main opportunities for these businesses
> Opportunities reside in
  1. Exports
  2. New markets and products
  3. Innovation in technology

> According to the business professionals who completed this survey, the three most important elements when a company is seeking financing are the amount sought, turnaround time and the portion the company needs to contribute.
Detailed results
Clients’ profile and access to financing

**Do you act as a financial advisor for clients with the following profile?** Multiple answers allowed. (n=147)

- Businesses with annual growth of sales/total earnings between 11% and 20%: 53%
- Manufacturers: 43%
- Businesses with expansion plans in domestic or foreign markets: 40%
- Businesses with annual growth of sales/total earnings of 20% and over: 35%
- No, I don’t: 26%
- I don’t know: 3%
- I prefer not to answer: 1%

**How would you define access to financing for Canadian manufacturing businesses at the present time?** (n=61)

- Very difficult: 13%
- Somewhat difficult: 51%
- Neither easy nor difficult: 33%
- Somewhat easy: 3%

**How would you define access to financing for businesses in growth or expansion stages at the present time?** (n=97)

- Very difficult: 21%
- Somewhat difficult: 51%
- Neither easy nor difficult: 25%
- Somewhat easy: 4%

Base: Respondents who act as a financial advisor for manufacturers. Those who preferred not to answer were excluded from the calculation base.

Base: Respondents who act as a financial advisor for businesses in growth or expansion stages. Those who preferred not to answer were excluded from the calculation base. Due to rounding, the sum of the results may not equal 100%.
Sought financing

Did any of your clients in the manufacturing industry, or in growth or expansion stages seek financing recently? (n=103)

- Yes, 68%
- No, 20%
- I don’t know, 12%

Base: Respondents who act as a financial advisor for businesses.
**Obtained financing**

**Did these clients obtain the financing they were seeking? (n=70)**

- Yes, all of them did: 10%
- Yes, most of them did: 39%
- Yes, a few of them did: 44%
- No, none of them did: 7%

*Base: Respondents who said that their clients sought financing recently.*

**Why did some of your clients not obtain the financing they were seeking?**

**Main reasons**
- Not able to meet the Bank criteria (e.g. guarantees)
- Company situation (size, life stage, revenues, past history, ratios, level of risk, etc.)

*Base: Respondents who said that a few or all their clients did not obtain the financing they were seeking.*

**From which source(s) did your clients obtain financing?**

Multiple answers allowed. (n=65)

- Commercial bank or credit union: 85%
- Own personal funding: 54%
- Government organizations (e.g. BDC, EDC, FCC): 52%
- Love money (private investors including owner, friends and family): 40%
- Private sources (e.g. venture capital, private equity, subordinate financing): 37%
- Company operating capital (retained earnings): 35%
- Leasing: 35%
- Government programs (federal, provincial or municipal): 23%
- High net worth individuals: 17%
- Suppliers: 15%
- Angel investors: 9%
- Public offering: 3%
- Other: 6%
- I don’t know: 2%

*Base: Respondents who said that their clients obtained the financing they were seeking.*
Recommended particular types of financing

**Did you recommend a particular type of financing to these clients? (n=69)**

- **Yes, to most of them, 44%**
- **Yes, to some of them, 45%**
- **No, 12%**

**Total “Yes”: 88%**

**What type of financing did you recommend to these clients?**

Multiple answers allowed. (n=61)

- **Term loan**: 74%
- **Operating line of credit**: 69%
- **Commercial mortgage**: 48%
- **Refinancing**: 48%
- **Private equity investment**: 36%
- **Subordinate financing**: 33%
- **Leasing**: 30%
- **Factoring financing**: 25%
- **Venture capital**: 21%
- **Business credit card**: 16%
- **Mezzanine financing**: 16%
- **Buyout**: 13%
- **Other**: 8%

**Base**: Respondents who said that their clients obtained the financing they were seeking. Those who preferred not to answer were excluded from the calculation base. * Due to rounding, the sum of the results may not equal 100%.
Insufficient access to financing

From your perspective, is there a gap in or insufficient access to financing for Canadian manufacturers, or for businesses in growth or expansion stages? (n=99)

Yes, 74%

No, 26%

What makes you think there is a gap in or insufficient access to financing? Where would that gap be?

Main reasons

- Banks are too risk averse, too conservative.
- It is hard to get financing for specific needs (e.g. inventory financing).
- The past history of the company is too important (e.g. banks refer to past financial statements to determine the future growth of the company).
- It is hard to get financing for start-up and small businesses.
- Requirements/guarantees are too high.

Base: Respondents who act as a financial advisor for businesses. Those who preferred not to answer were excluded from the calculation base.
### Financing needs, challenges and growth opportunities

**Do manufacturers have specific financing needs (e.g. amount or type of financing sought, financing sources, consulting and advice)?**

**Main specific needs**
- Working capital / operating financing
- Equipment and inventory financing
- Support from government

**What challenges will the Canadian manufacturing sector mainly be facing in the next years?**

**Main challenges**
- Access to financing
- International competition
- Retaining and recruiting skilled workers

**What will be their main growth opportunities?**

**Main growth opportunities**
- Exports
- New markets and products
- Innovation in technology

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**Do businesses in growth or expansion stages have specific financing needs (e.g. amount or type of financing sought, financing sources, consulting and advice)?**

**Main specific needs**
- Operating financing / working capital
- Financing based on projected results (not on the past history)

**What challenges will the Canadian businesses in growth or expansion stages mainly be facing in the next years?**

**Main challenges**
- Access to financing
- Retaining and recruiting skilled workers

**What will be their main growth opportunities?**

**Main growth opportunities**
- Exports
- Innovation in technology

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*Base: Respondents who act as a financial advisor for manufacturers.*
## Important elements when companies are seeking financing

**In your opinion, how important are each of the following elements when companies are seeking financing for a business?**

<table>
<thead>
<tr>
<th>Element</th>
<th>Very important</th>
<th>Somewhat important</th>
<th>Less / unimportant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing amount sought (n=147)</td>
<td>76%</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>Turnaround time (n=147)</td>
<td>65%</td>
<td>34%</td>
<td>1%</td>
</tr>
<tr>
<td>Portion the company needs to contribute (n=147)</td>
<td>61%</td>
<td>35%</td>
<td>5%</td>
</tr>
<tr>
<td>Availability of revolving credit (n=144)</td>
<td>57%</td>
<td>37%</td>
<td>6%</td>
</tr>
<tr>
<td>Collateral required (guarantees) (n=147)</td>
<td>57%</td>
<td>36%</td>
<td>7%</td>
</tr>
<tr>
<td>Business support from the financial partner (n=145)</td>
<td>43%</td>
<td>32%</td>
<td>25%</td>
</tr>
<tr>
<td>Amortization conditions (loan duration) (n=147)</td>
<td>42%</td>
<td>42%</td>
<td>16%</td>
</tr>
<tr>
<td>Documentation required (n=147)</td>
<td>41%</td>
<td>40%</td>
<td>19%</td>
</tr>
<tr>
<td>Interest rate or yield to be paid (n=147)</td>
<td>37%</td>
<td>44%</td>
<td>18%</td>
</tr>
<tr>
<td>Fees/costs charged (n=146)</td>
<td>27%</td>
<td>47%</td>
<td>27%</td>
</tr>
<tr>
<td>Possibility of reimbursement before scheduled date (n=138)</td>
<td>22%</td>
<td>46%</td>
<td>32%</td>
</tr>
</tbody>
</table>

*Base: All respondents. Those who preferred not to answer were excluded from the calculation base. Due to rounding, the sum of the results may not equal 100%.*
Quasi-equity

How familiar are you with quasi-equity? (n=147)
Quasi-equity financing is also referred to as subordinate, mezzanine or debenture financing. It is a type of hybrid financing, falling between an equity investment and traditional financing. It takes the form of a loan not based on the value of assets or on a guarantee. Quasi-equity financing includes features such as very flexible or patient principal payment terms, or a risk premium (e.g. a requirement that the financing organization share in the company’s success).

- Very familiar: 21%
- Somewhat familiar: 44%
- Somewhat unfamiliar: 16%
- Not familiar at all: 19%

Base: All respondents.

Have you ever recommended quasi-equity financing to any of your clients? (n=116)

- Yes: 54%
- No: 44%
- I don't remember: 2%

Base: Respondents who did not recommend quasi-equity to any of theirs clients. Those who preferred not to answer were excluded from the calculation base.

Are you aware of firms or organizations offering quasi-equity financing? (n=50)

- Yes: 42%
- No: 58%

Base: Respondents who said they were familiar with quasi-equity. Those who preferred not to answer were excluded from the calculation base.

What do you think of quasi-equity financing? Are there aspects of it that you like or dislike?

Positive aspects
- Good type of financing/alternative for certain cases
- Risk sharing

Negative aspects
- Too expensive
- High interest rate

Base: Respondents who said they were familiar with quasi-equity.
### Opening regarding different aspects

**To secure the financing their company needs for a given project, in general, how open are your clients to the following aspects of the deal?**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Very open</th>
<th>Somewhat open</th>
<th>Not open</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting a different financial instrument than they sought initially</td>
<td>35%</td>
<td>57%</td>
<td>8%</td>
</tr>
<tr>
<td>Having a financial partner provide recommendations or advice</td>
<td>35%</td>
<td>52%</td>
<td>12%</td>
</tr>
<tr>
<td>Having a financial partner participate in the analysis of their project</td>
<td>29%</td>
<td>58%</td>
<td>14%</td>
</tr>
<tr>
<td>Establishing funding cost based on project performance</td>
<td>23%</td>
<td>63%</td>
<td>14%</td>
</tr>
<tr>
<td>Establishing funding cost based on company performance</td>
<td>20%</td>
<td>61%</td>
<td>19%</td>
</tr>
<tr>
<td>Hiring external consultants</td>
<td>11%</td>
<td>53%</td>
<td>37%</td>
</tr>
<tr>
<td>Having a financial partner suggest potential members of their advisory board or board of directors</td>
<td>8%</td>
<td>49%</td>
<td>43%</td>
</tr>
<tr>
<td>Adding shareholders</td>
<td>6%</td>
<td>34%</td>
<td>60%</td>
</tr>
<tr>
<td>Losing majority control</td>
<td>6%</td>
<td>3%</td>
<td>88%</td>
</tr>
</tbody>
</table>

**Base:** All respondents. Those who preferred not to answer were excluded from the calculation base. Due to rounding, the sum of the results may not equal 100%.
### Beneficial elements to a business

**In your opinion, how beneficial are the following elements to a business?**

<table>
<thead>
<tr>
<th>Element</th>
<th>Very beneficial</th>
<th>Somewhat beneficial</th>
<th>Less/not beneficial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face-to-face business support from a financial advisor</td>
<td>63%</td>
<td>31%</td>
<td>6%</td>
</tr>
<tr>
<td>Executive coaching or mentoring (n=144)</td>
<td>47%</td>
<td>43%</td>
<td>10%</td>
</tr>
<tr>
<td>New networking opportunities (n=147)</td>
<td>45%</td>
<td>46%</td>
<td>10%</td>
</tr>
<tr>
<td>In-person training sessions (n=147)</td>
<td>44%</td>
<td>45%</td>
<td>11%</td>
</tr>
<tr>
<td>Advisory board (n=145)</td>
<td>35%</td>
<td>46%</td>
<td>19%</td>
</tr>
<tr>
<td>Board of directors (n=146)</td>
<td>31%</td>
<td>43%</td>
<td>26%</td>
</tr>
<tr>
<td>Online business support from a financial advisor (n=143)</td>
<td>27%</td>
<td>44%</td>
<td>29%</td>
</tr>
<tr>
<td>Online training sessions and webinars (n=144)</td>
<td>20%</td>
<td>51%</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Base:** All respondents. Those who preferred not to answer were excluded from the calculation base. Due to rounding, the sum of the results may not equal 100%.
Respondent profile
Respondent profile

- **Region**
  - 29%: [Map with highlighted regions]
  - 42%: [Map with highlighted regions]
  - 5%: [Map with highlighted regions]

- **Profession**
  - Accountant: 32%
  - Business adviser / consultant: 24%
  - Lawyer: 9%
  - Real estate broker: 8%
  - Real estate professional: 5%
  - Banker: 4%
  - Mortgage broker: 3%
  - Marketing professional: 2%
  - Other: 14%

Base: All respondents. Responses under 2% are not shown. They are tabulated under “Other”. Due to rounding, the sum of the results may not equal 100%.