

# MANUFACTURERS:

Access to financing and specific needs

BDC ViewPoints study – May 2013



# SURVEY HIGHLIGHTS:

## Manufacturers' access to financing



- > Manufacturers who answered the survey seem to generally be in **good health**.
  - One third report average sales growth greater than 10% in the past three years, and two out of five report 1% to 10% sales growth.
- > That being said, more than half of the respondents claim that **access to financing** remains **difficult** for Canadian manufacturers (28% say it is “very difficult”).
- > Less than half (43%) **requested** financing in 2013, and a majority (59%) did so in 2012.
  - Most of the respondents who said they did not request financing claim it is because they did not see any immediate needs.
- > Among those who requested financing, a **majority received – at least in part – the money sought**. In fact, nearly two thirds received funding either in full (41%) or in part (23%).
- > The two main **sources** of financing cited are traditional in nature: **commercial banks** (64%) and **government organizations** (52%).
  - To a lesser extent, respondents mentioned leasing, personal funding and retained earnings as sources of financing for their business.
- > Manufacturers do have **projects** for the future. Two thirds are planning to **develop new products or services**, or to **purchase new equipment or machinery**.
- > However, three out of five manufacturers who completed this survey believe that **access to financing** for their planned project will be an **issue**.

*[...] it has been difficult to book orders and projects. Money is tight and it is tough to support the business that we have. The banks and financial institutions don't seem too interested in helping small businesses.*

*We have new, exciting technology but all commercial lenders believe new technology is high risk.*

*All manufacturers have ongoing specific financing needs... [There might be] financing challenges [...] for some Canadian manufacturers but because we have good cash flow, we do not have a problem and do not anticipate one in the near future.*

# SURVEY HIGHLIGHTS:

## Non-traditional sources of financing



> When **seeking financing**, manufacturers perceive the following key elements as follows:

- + **VERY IMPORTANT:** Amount and interest rates
- SOMEWHAT IMPORTANT: Collateral, revolving credit and company portion
- LESS IMPORTANT: Fees, turnaround time and amortization period
- **NOT VERY IMPORTANT:** Support provided by financial partner, documentation required and ability to reimburse before schedule

> More than half of the respondents are **not at all familiar with quasi-equity**.

> Generally speaking, the manufacturers who completed the survey are **open** to most of the elements that characterize equity financing, except when it comes to diluting the company:

- + **OPEN:** Having a financial partner (FP) provide recommendations or advice; getting a different financial instrument than sought initially; having an FP participate in the analysis of the project;
- MODERATELY OPEN: Establishing funding cost based on project performance or company performance; hiring external consultants; having an FP suggest potential members of the company's advisory board or board of directors.
- **NOT OPEN:** Adding shareholders; losing majority control.

> When it comes to investing, three out of five respondents **consult** either an **external advisor** such as an accountant (43%) or an **internal advisor** (16%). Therefore, building a good network of influencers is key to BDC Subordinate Financing's business development strategy.

*I have some understanding of [quasi-equity] but do not know specific details.*

*[It is] a fair and equitable concept, provided there is a clear-cut ability to return to original ownership, once an agreed upon return has been achieved.*

# SURVEY HIGHLIGHTS:

## Respondent profile

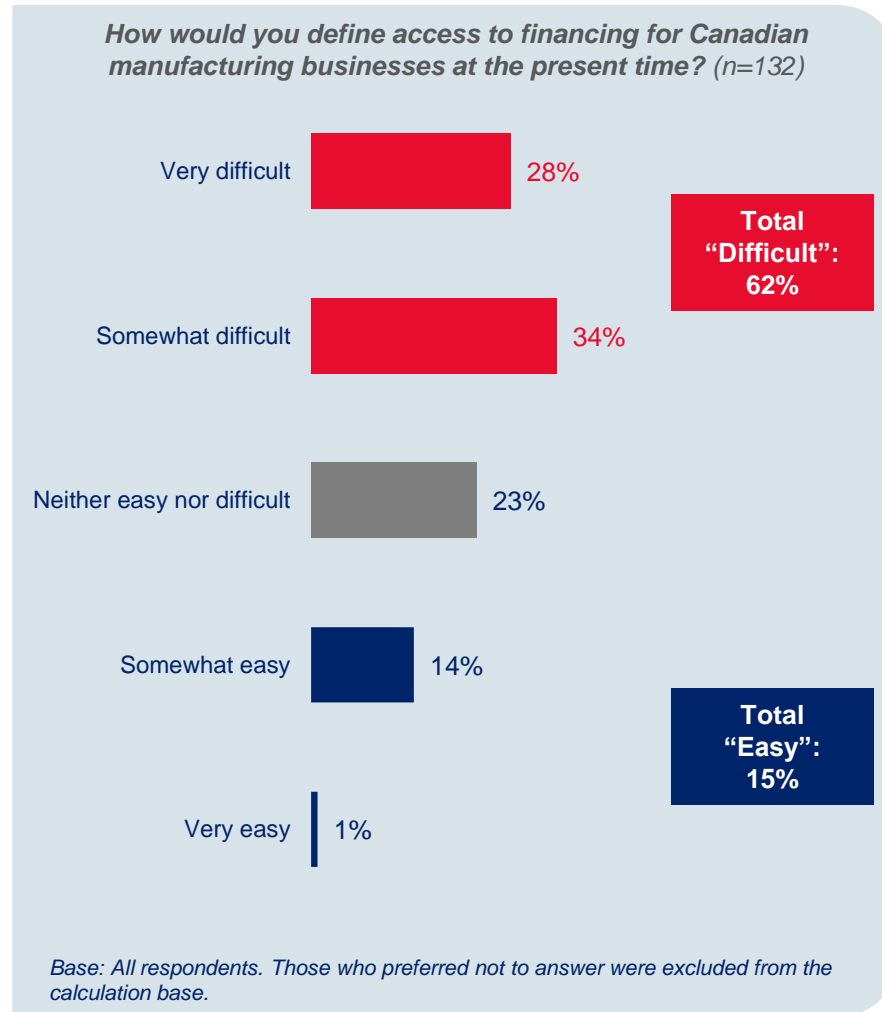


- > **140 Canadian manufacturers**, members of the BDC ViewPoints panel, completed this survey between May 21 and June 2, 2013.
- > Most respondents come from businesses with **5 to 99 employees**:
  - 1 to 4 employees: 34%
  - 5 to 99 employees: 59%
  - 100 employees or more: 7%
- > Respondents **from all four regions** were represented:
  - West: 28%
  - Ontario: 39%
  - Quebec: 28%
  - Atlantic: 5%
- > Half of the respondents qualify their current business life stage as being in **growth or expansion**.
- > Respondents mainly focus on **innovation, marketing, and operational efficiency** when it comes to growth opportunities:
  - Product / service innovation
  - Expanding in existing / new markets
  - Streamlining operations
  - Responding to higher demand from emerging countries
- > Two out of five respondents have **an advisory board or a board of directors** in their company.
- > Almost three quarters (72%) report **exporting** outside of the country.
  - Those who don't export claim it is because it is not applicable to their business model; the size of their company does not warrant it; or they don't have the internal resources to pursue such initiatives.

# Detailed results

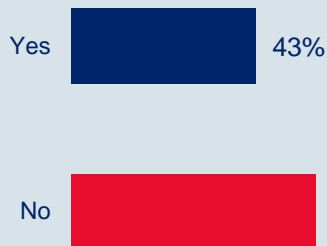
***NOTE: Only relevant statistically significant differences between sub-groups have been highlighted in this document.***

# Access to financing for manufacturing businesses



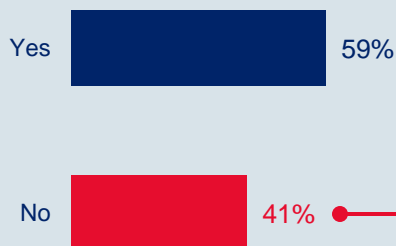
# Seeking financing in the past 18 months and reasons not to seek financing

## Did you seek financing for your business thus far in 2013? (n=139)



Base: All respondents. Those who preferred not to answer were excluded from the calculation base.

## Did you seek financing for your business in 2012? (n=139)



Base: All respondents. Those who preferred not to answer were excluded from the calculation base.

## Why did you not seek financing in the past 18 months? Multiple answers allowed. (n=39)



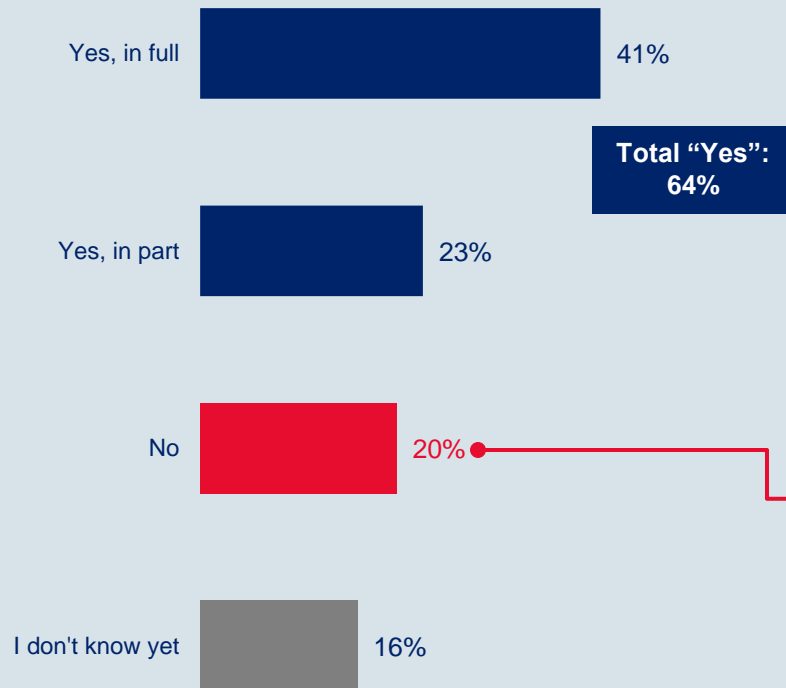
Base: Respondents who did not seek financing recently. Sample is small; please interpret with caution.

A greater proportion of those who are familiar with quasi-equity sought financing thus far in 2013.

More frequently, businesses with high sales growth in the past 3 years sought financing in the last 18 months.

# Obtaining financing, how financing was used and reasons not to obtain the financing sought

Did you obtain the financing you were seeking in your most recent request? (n=99)



Base: Respondents who sought financing recently. Those who preferred not to answer were excluded from the calculation base.

How did you use (or are you using) the funding?

**Main uses:**

- Purchase or improve equipment (e.g. software, hardware, machinery)
- Inventory
- Cash flow
- Line of credit
- New building or building improvement

Base: Respondents who obtained the financing they were seeking.

Why you did not obtain the financing you were seeking?

**Main reasons:**

- Company situation (e.g. size, number of sales, ratios, capital, level of risk)
- Not enough personal guarantees
- Entrepreneur did not agree with the terms (was not satisfied)

Base: Respondents who did not obtain the financing they were seeking.



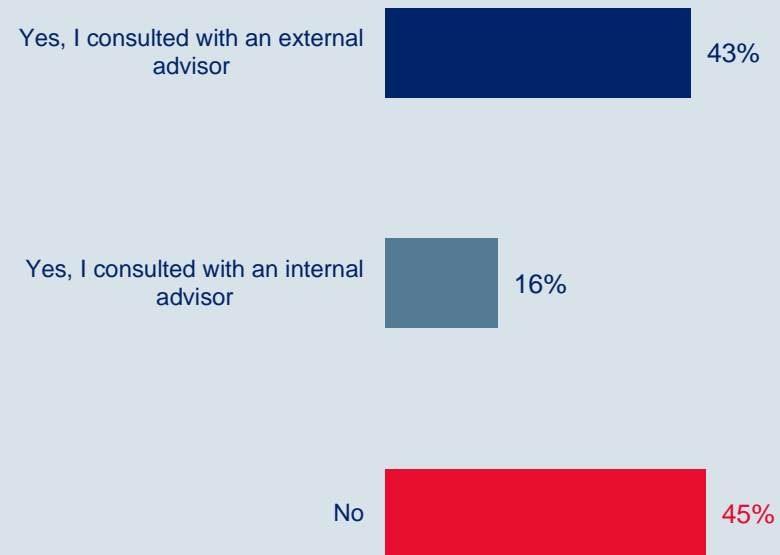
# Sources of funding and consulting an advisor before looking for a financing source

**From which source(s) did you obtain your financing?**  
Multiple answers allowed. (n=66)



Base: Respondents who obtained the financing they were seeking.

**Did you consult with a business advisor (e.g., accountant, lawyer, business valuation expert, financial advisor) before contacting that/those source(s)?**  
Multiple answers allowed. (n=66)



Base: Respondents who obtained the financing they were seeking.

# Financing needs, challenges and growth opportunities specific to manufacturers

*In your opinion, do manufacturers have specific financing needs (amount or type of financing sought, financing sources, consulting and advice, etc.)?*

**Main specific needs:**

- Equipment financing
- Long-term payment schedule
- Support for exporting
- Working capital
- Investment and support from government
- Consulting services

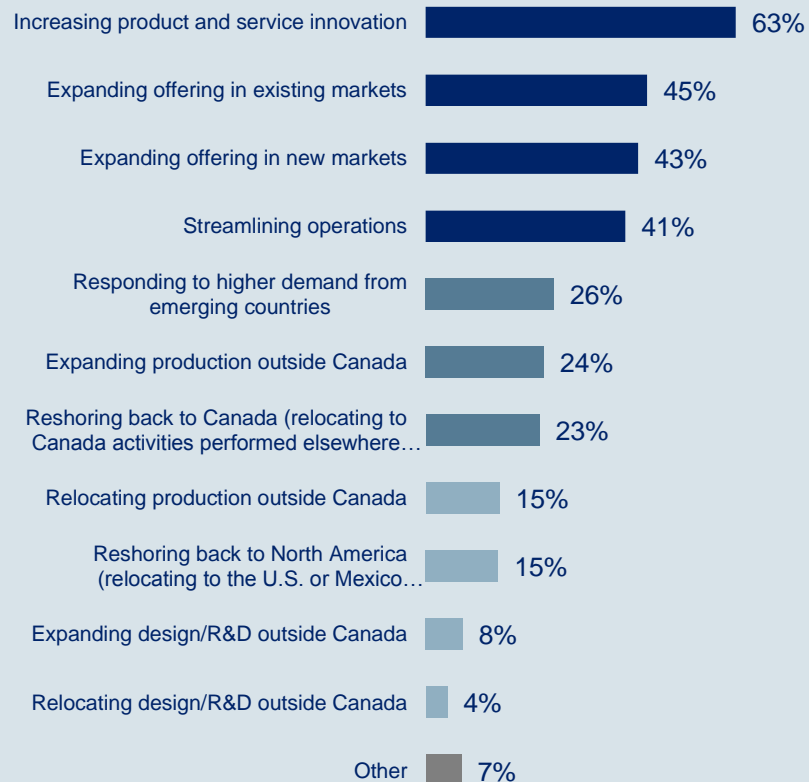
*What challenges will the Canadian manufacturing sector mainly be facing in the next years?*

**Main challenges:**

- Local and international competition (e.g. China, India)
- High Canadian dollar
- Cost of labour (e.g. higher wages in Canada)
- Retaining and recruiting skilled workers
- High taxation
- Governmental regulations
- Innovation/technology
- Cost of fuel/gas

*Where do growth opportunities for Canadian manufacturers mainly lie in the next few years?*

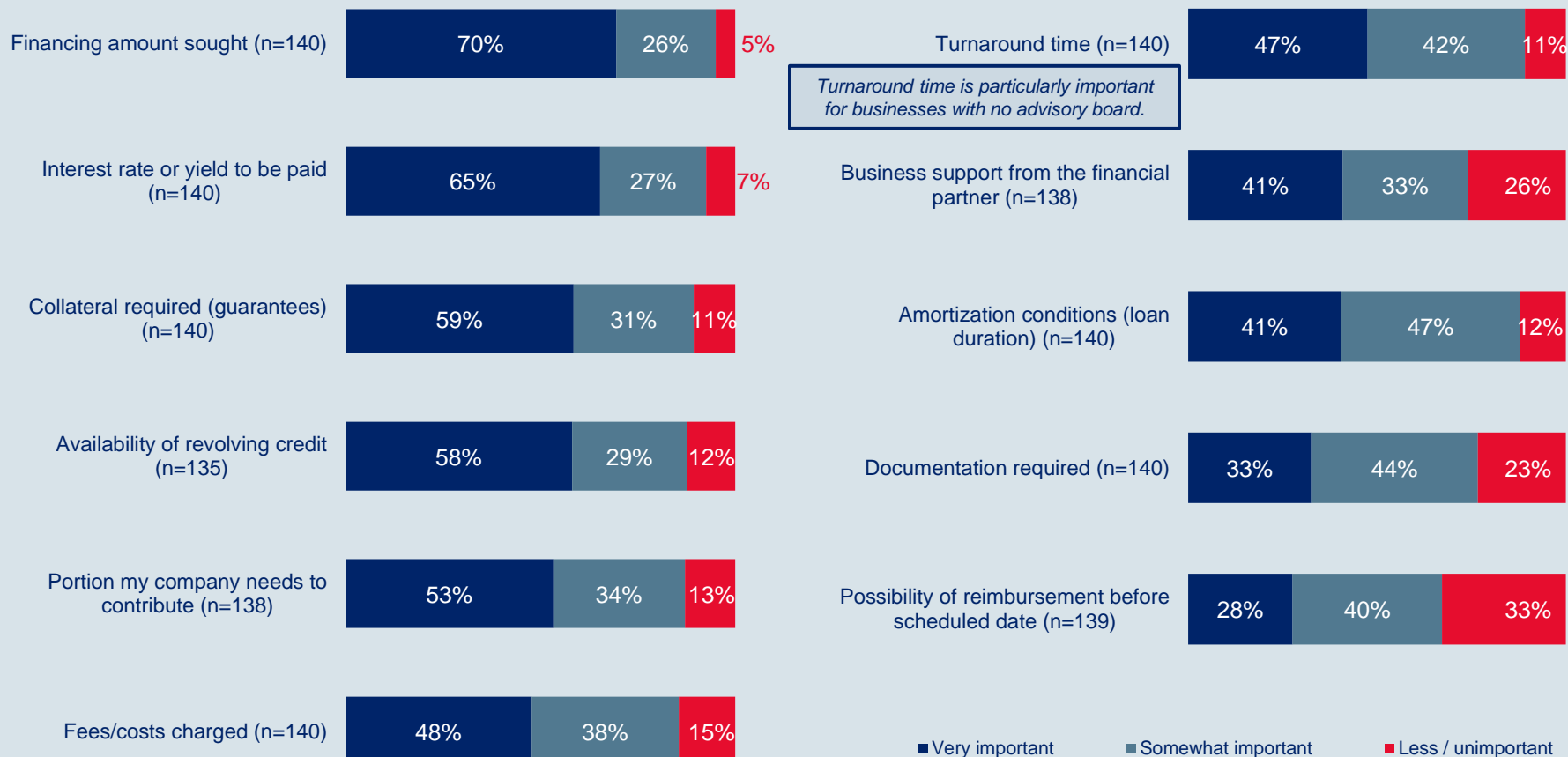
*Multiple answers allowed. (n=131)*



*Base: All respondents. Those who preferred not to answer were excluded from the calculation base.*

# Elements perceived as important when seeking financing

Generally speaking, how important are each of the following elements to you when you are seeking financing for your business?

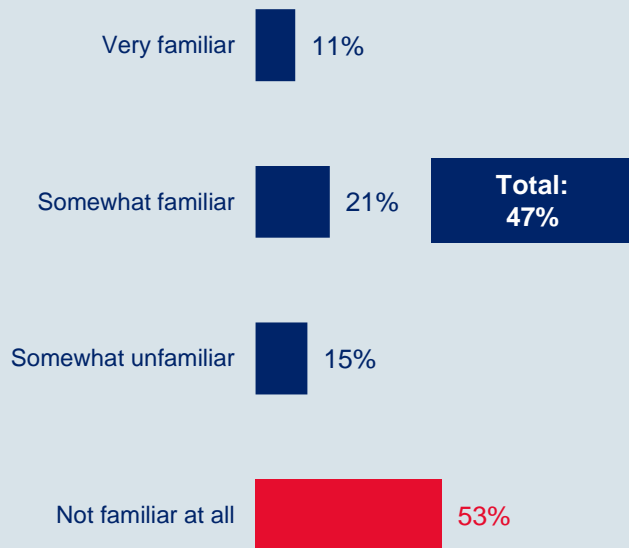


Turnaround time is particularly important for businesses with no advisory board.

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%.

# Familiarity and perception of quasi-equity financing

## How familiar are you with quasi-equity? (n=138)



We find a greater proportion of respondents who are not at all familiar with quasi-equity among those who did not seek financing in the past 18 months.

Base: All respondents. 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 specific cases
- Higher risk capital

### Negative aspects:

- Too expensive
- High interest rates
- Terms are not clear
- Process is complex and long

Base: Respondents who said they were "Very familiar", "Somewhat familiar" or "Somewhat unfamiliar" with quasi-equity.

# Being open to certain conditions when securing financing

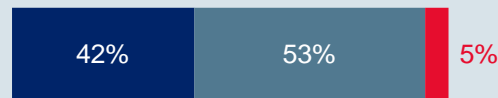
To secure the financing your company needs for a given project, how open are you to the following aspects of the deal?

■ Very open ■ Somewhat open ■ Not open

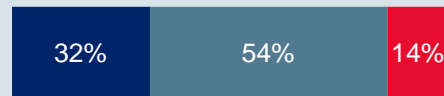
Having a financial partner provide recommendations or advice (n=138)



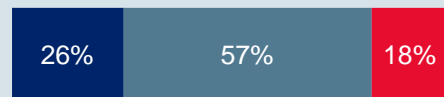
Getting a different financial instrument than I sought initially (n=136)



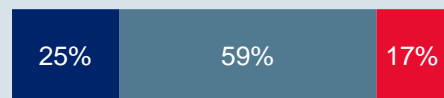
Having a financial partner participate in the analysis of my project (n=138)



Establishing funding cost based on project performance (n=130)



Establishing funding cost based on company performance (n=133)

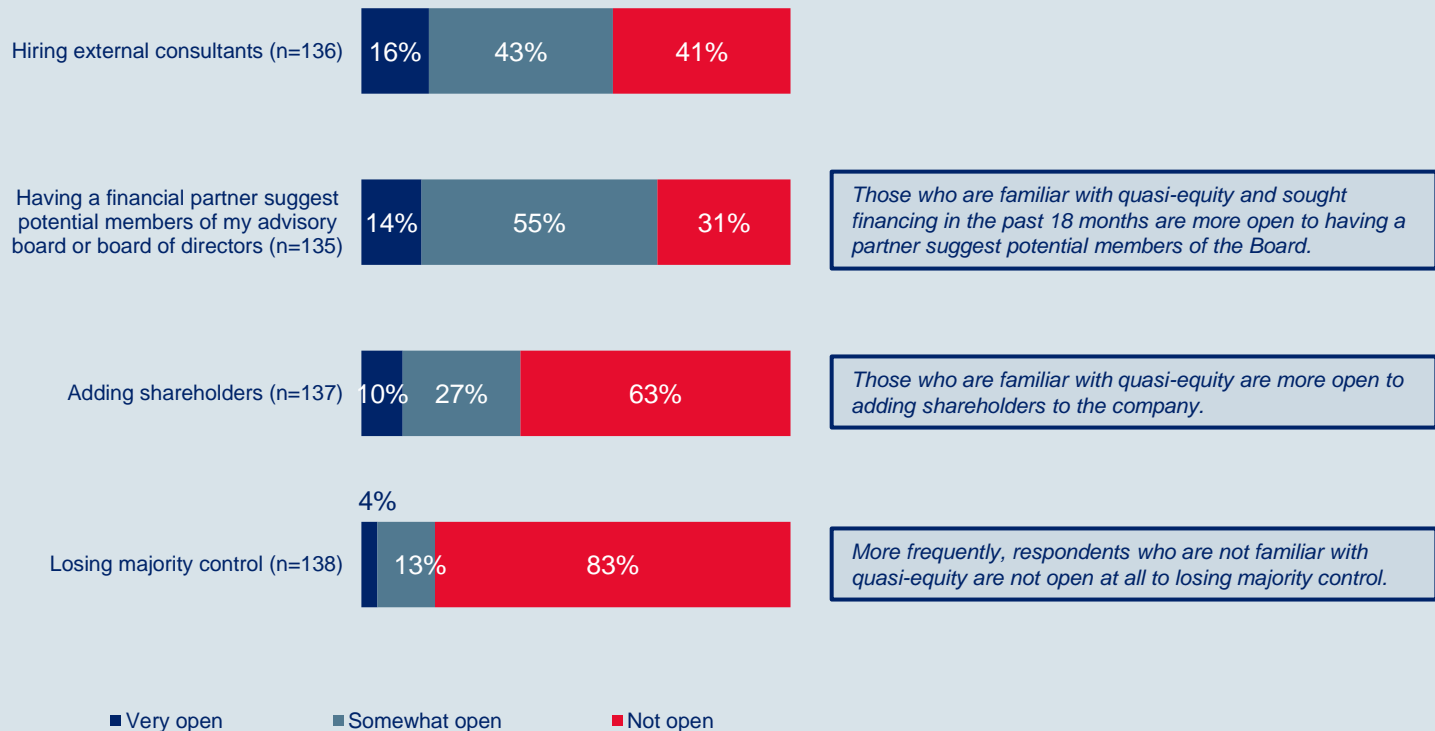


More often, those who sought financing in the past 18 months are very open to establishing funding cost based on company performance.

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%.

# Being open to certain conditions when securing financing (continued)

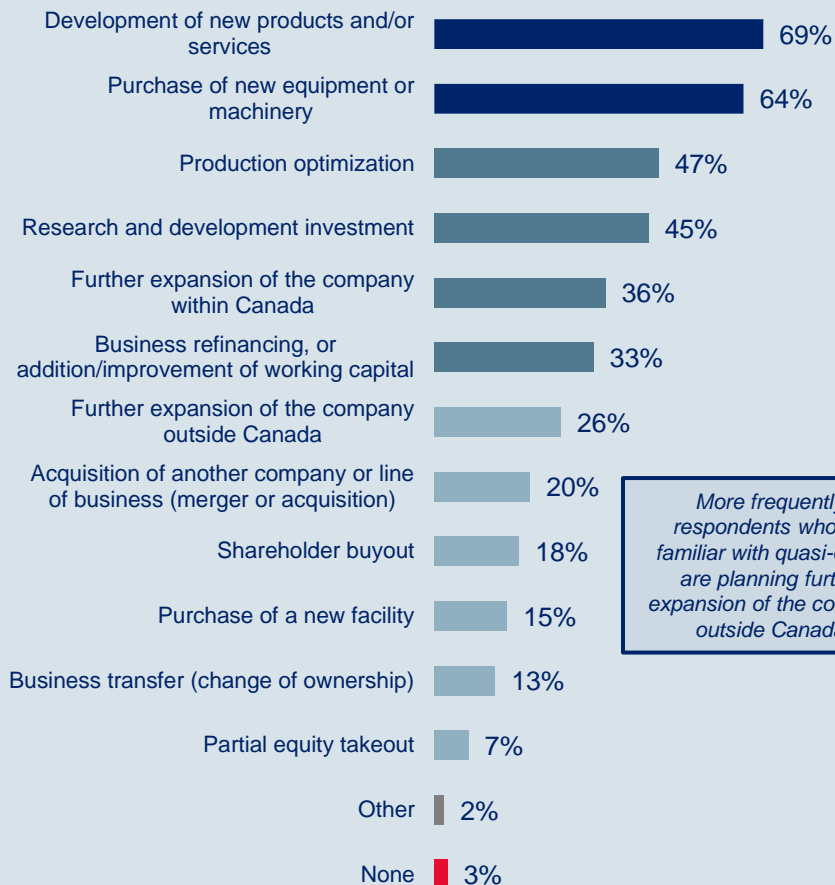
To secure the financing your company needs for a given project, how open are you to the following aspects of the deal?



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%.

# Planned initiatives and accessing financing for these initiatives

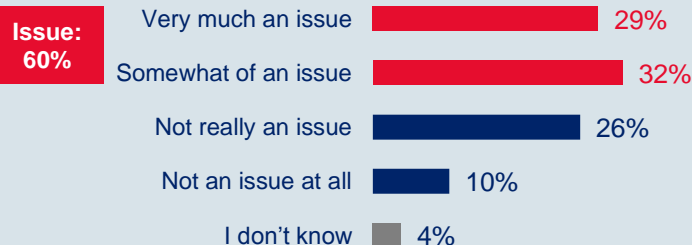
Does your company plan to pursue any of the following initiatives in the next 24 months? Multiple answers allowed. (n=140)



More frequently, respondents who are familiar with quasi-equity are planning further expansion of the company outside Canada.

Base: All respondents.

Is access to financing an issue for any of the planned initiatives you have previously identified for your company? (n=135)



Base: Respondents who planned at least one initiative. Those who preferred not to answer were excluded from the calculation base.

\*Due to rounding, the sum of the results may not equal 100%.

Issue: 60%

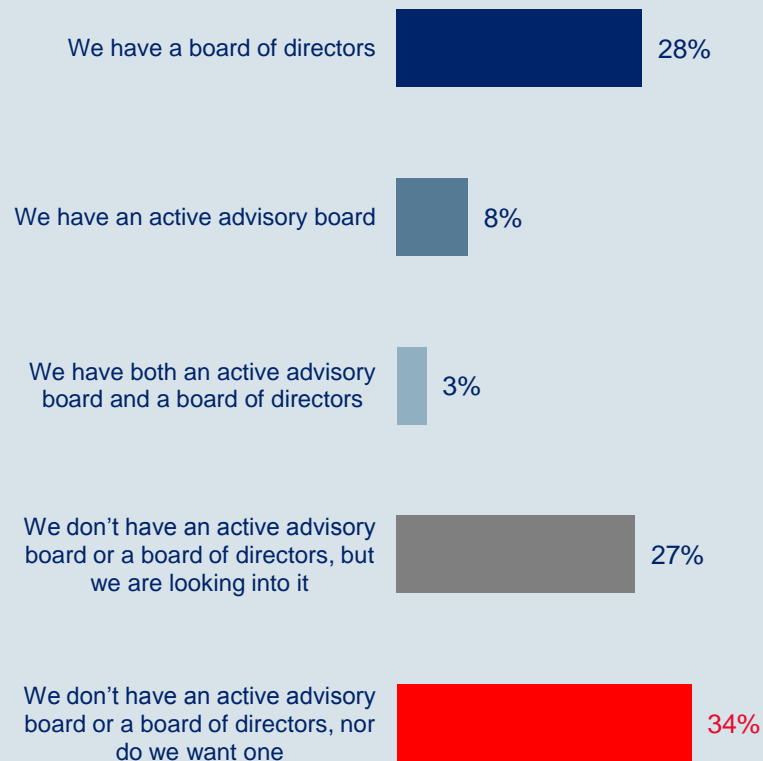
What makes you believe that access to financing is or will be an issue?

Main reasons access to financing is or will be an issue

- Company situation (e.g. size, profitability, number of sales, debt/equity ratio, level of risk)
- Guarantees/terms
- Experience/past experience with banks
- Cost of financing
- Amount of documentation required/long process

# Having an active advisory board and board of directors in the business

Does your company currently have an active advisory board or board of directors? (n=132)

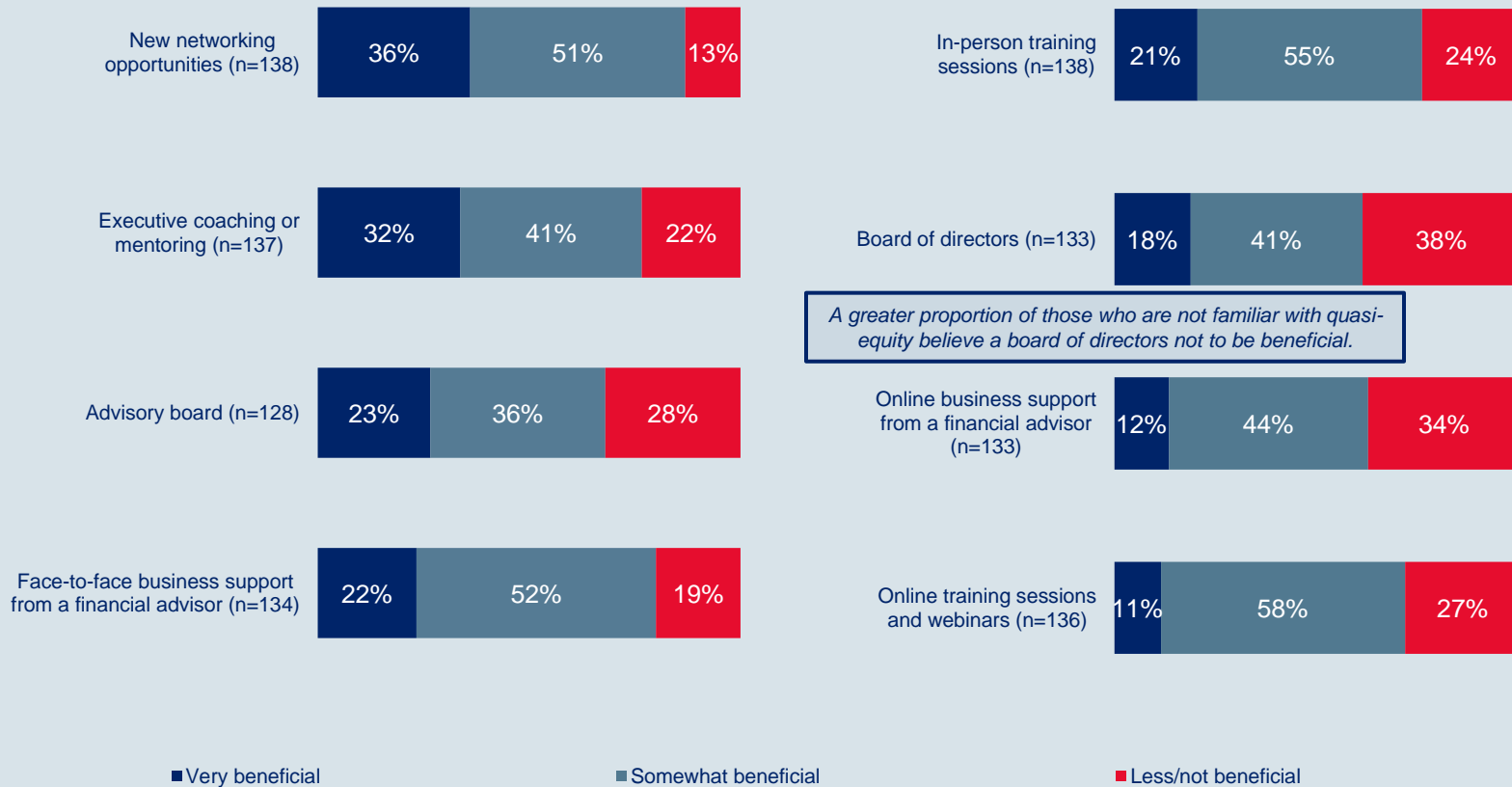


Base: All respondents. Those who preferred not to answer were excluded from the calculation base.



# Elements perceived as beneficial to a business

*In your opinion, how beneficial are the following elements to your business—or how beneficial would they be to your business?*

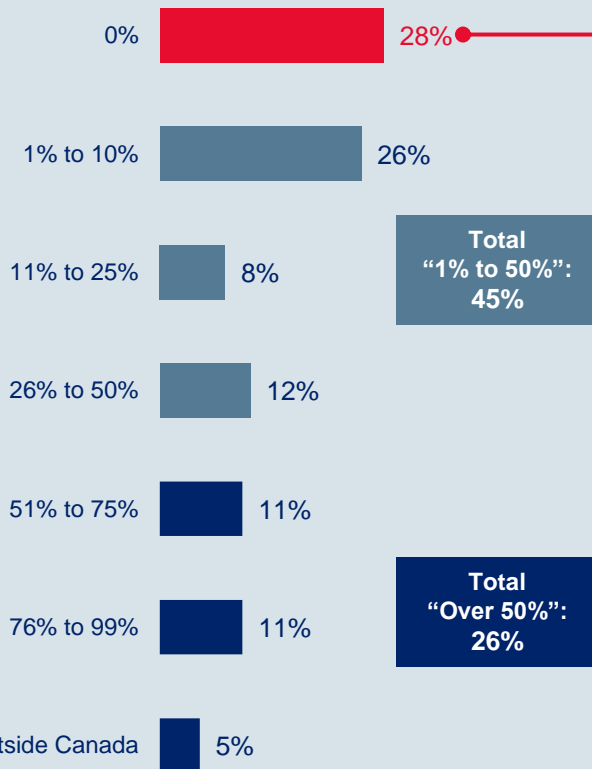


*A greater proportion of those who are not familiar with quasi-equity believe a board of directors not to be beneficial.*

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%.

# Sales from outside Canada and reasons not to export products or services

What proportion of your total sales comes from outside Canada? (n=135)



On average, those who are more familiar with equity and businesses with an advisory board or board of directors also have a greater proportion of their total sales coming from outside Canada.

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%.

Could you explain why your company does not currently export any of its products or services outside Canada?

Multiple answers allowed. (n=35)



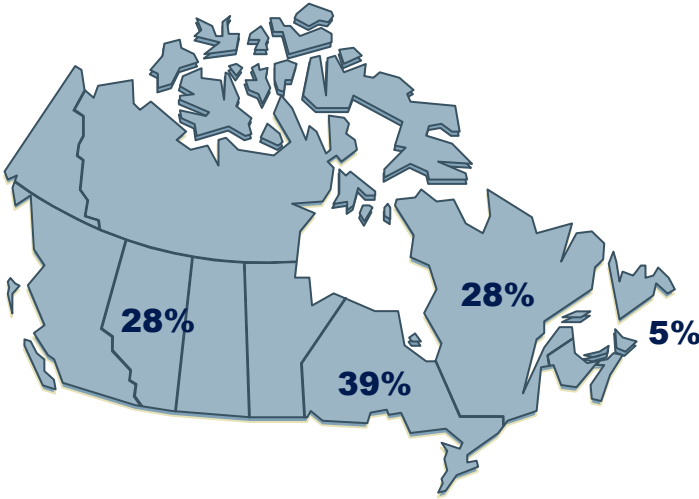
Base: Respondents who don't have sales coming from outside Canada. Sample size is small; please interpret with caution.

# **Business profile**

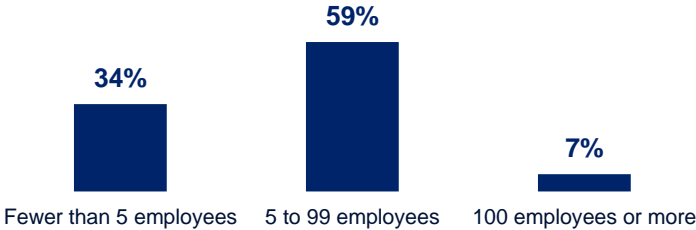
# BUSINESS PROFILE:

## Region and number of employees

n=140



Region



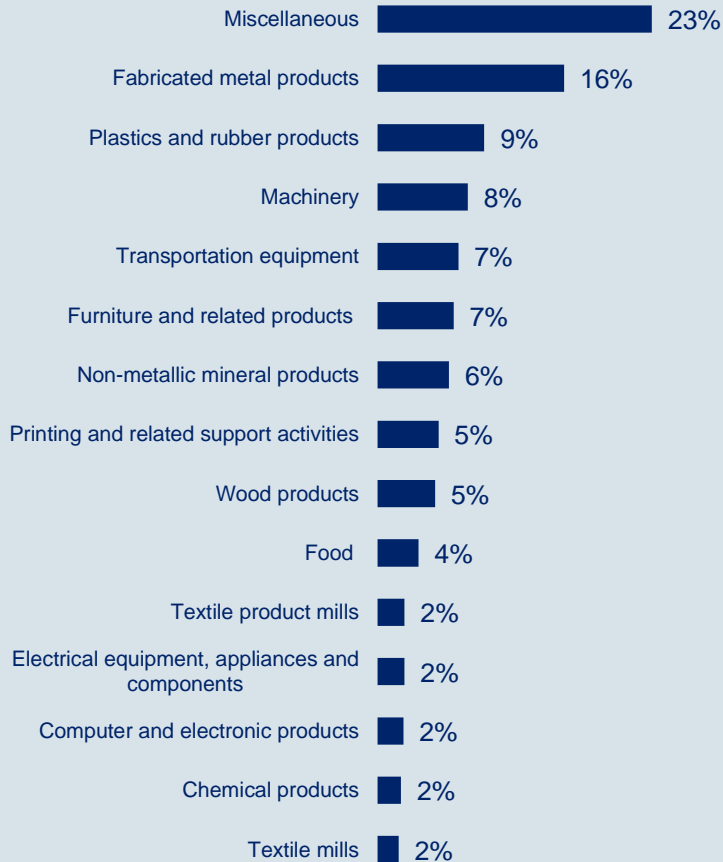
Number of employees

Base: All respondents. Note that results have been weighted by region and business size to be representative of the Canadian Manufacturing SME population.

# BUSINESS PROFILE:

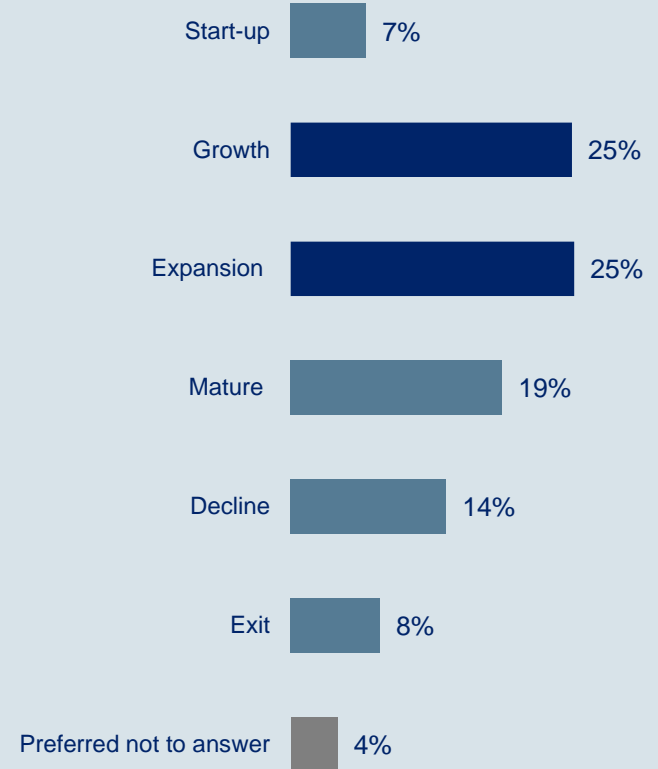
## Type of manufacturer and business life stage

**What does your company manufacture? (n=136)**



Base: All respondents. Those who preferred not to answer were excluded from the calculation base.

**How would you define the current life stage of your business? (n=140)**

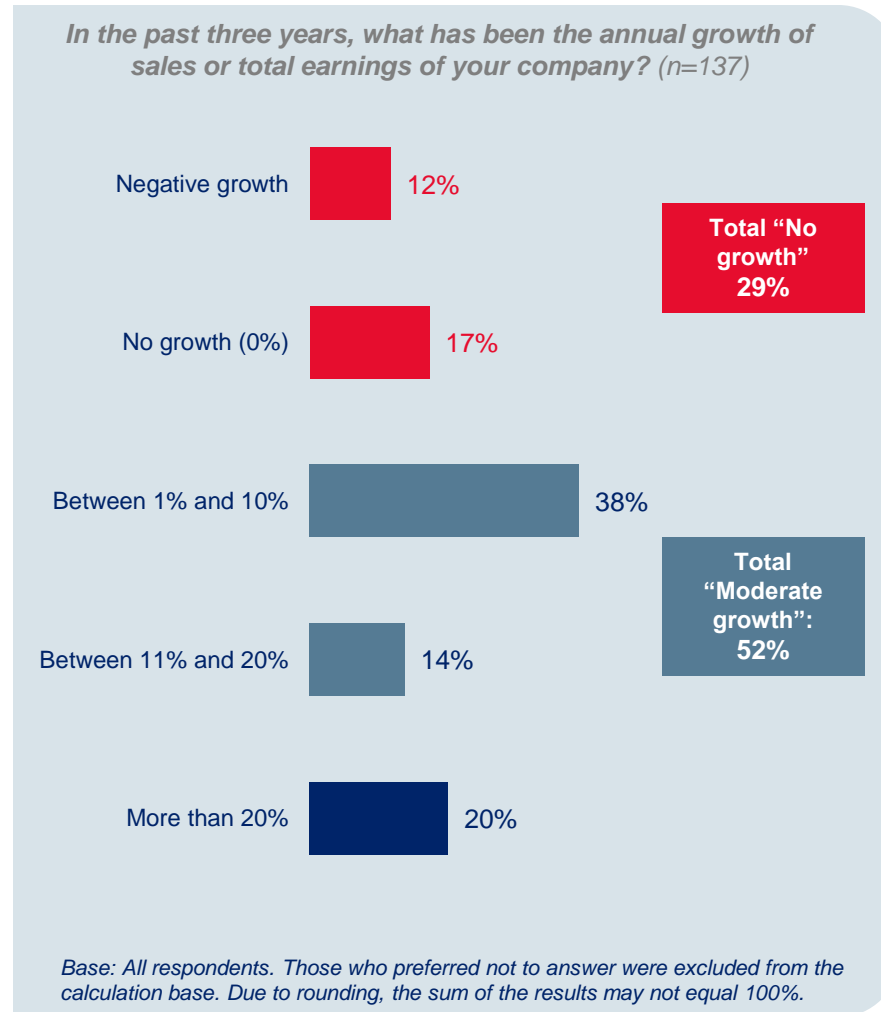


Base: All respondents.

\*Due to rounding, the sum of the results may not equal 100%.

# BUSINESS PROFILE:

## Annual growth in the past three years



## Research and Market Intelligence at BDC

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