



# Corporate plan summary

2017-18 to 2021-22

Operating budget  
Capital budget



The corporate plan summary of the Business Development Bank of Canada (BDC) is based on the 2017-18 to 2021-22 BDC corporate plan as approved by the Governor General in Council on March 24, 2017, on the recommendation of the Minister of Innovation, Science and Economic Development and the Minister of Finance. Initiatives from the 2017 Budget are not reflected in this document.

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## **Note**

BDC's fiscal year runs from April 1 to March 31.  
For example, fiscal 2018 runs from April 1, 2017 to March 31, 2018.

# Executive summary

The Business Development Bank of Canada (BDC) is the only bank devoted exclusively to Canadian entrepreneurs, accompanying them at every step of their business journey. BDC provides a complementary combination of guidance, investment and financial support to help entrepreneurs take the necessary steps to succeed.

Over the years, BDC has innovated in its approach to reach and serve entrepreneurs whose needs are not met by the private sector. BDC is proud to serve over 42,000 Canadian small and medium-sized enterprises (SMEs) directly and through its extensive network of partners.

BDC aspires to make Canadian entrepreneurs the most competitive in the world. It is steadfast in this strategic direction and is focussed on helping SMEs overcome challenges affecting their competitiveness such as difficulty scaling up, lagging productivity and low spending on research and development (R&D). The strategy is also aligned with the government's Innovation Agenda.

Over the planning period, BDC will address entrepreneur needs by:

## **Supporting innovation and productivity to unlock SME success**

A healthy technology sector is necessary to drive innovation and productivity. BDC offers tech companies advice to bring innovation to market and to increase operational efficiency. It provides flexible financing to support the development of new tech products and services, invest in R&D or acquire information and communications technologies (ICT). BDC also provides financing and advice to help businesses become more productive.

BDC will continue to strengthen the innovation

ecosystem with its venture capital (VC) activities. These help build the skills of VC fund managers while enabling the launch and growth of technology-focused businesses and the commercialization of innovation. BDC also manages the Venture Capital Action Plan (VCAP) on behalf of the government. This has attracted significant private sector investments to the asset class.

BDC continuously refines its VC strategy based on existing and emerging gaps. Over the planning period, it will address the lack of late-stage growth capital by co-investing alongside its fund partners in promising tech companies. It will also directly invest in women-led technology firms. With VCAP resulting in the scaling of several funds and with additional private investing in Canadian VC, BDC's indirect investing is expected to remain stable in fiscal 2018. VC total authorizations are also expected to remain stable at \$215 million in fiscal 2018. The VC portfolio at fair value is expected to increase by 8% in fiscal 2018 to reach \$1.1 billion.

## **Championing SME growth and international expansion**

With its patient capital and advice spanning the business journey of growing firms, BDC supports highly ambitious SMEs from creation to becoming global champions. Growth & Transition Capital is an effective partner for growing mature companies that are looking for more patient funding while limiting ownership dilution. There continues to be a shortage of capital available for later stages of growth for SMEs needing "small ticket" equity, especially for high-growth firms. Driven by an increased focus on growth equity, Growth & Transition Capital acceptances are expected to increase by 5% in fiscal 2018 to reach \$340 million.

BDC Advisory Services (previously known as BDC Advantage), encompasses BDC's non-financial offering and provides tools and services for firms looking to expand abroad and increase productivity, growth and managerial capabilities. Over the planning period, it will continue to deploy the Growth Driver program supporting high-impact firms in the development and execution of their growth plans. It will also continue to collaborate with EDC and add to its portfolio of solutions to support SME export capabilities.

Most of BDC Advisory Services' offering is considered an investment in entrepreneurs and BDC assumes a significant portion of the development and delivery costs. Revenues are expected to increase by 30% in fiscal 2018 to reach \$26 million, due to greater participation in the Growth Driver program and more mandates with SMEs.

#### **Having a greater impact on more entrepreneurs by increasing access to capital and advice**

With its ongoing progress to increase its physical presence across Canada, BDC will be able to serve more SMEs throughout the period. Consistent with its public policy mandate and complementary role, BDC will continue to focus on meeting the needs of underserved entrepreneurs with a particular focus on certain demographics (e.g., youth, and women entrepreneurs), underserved business types (e.g., small businesses), regions with specific needs (e.g., the North), innovative sectors (e.g., aerospace and cleantech) and sectors with cyclical revenues (e.g., oil and gas).

Continued effort will be deployed to work with partners and strengthen the entrepreneurial ecosystem by conducting research and providing insights on key issues that matter to entrepreneurs.

Over the course of the planning period, BDC will also streamline its internal operations, deploy new technologies, and simplify its processes. This will increase the ease, speed and convenience of doing business with BDC. BDC Financing acceptances are expected to remain stable at \$6.7 billion in fiscal 2018.

As a responsible Crown corporation, BDC continuously enhances its risk and capital management practices. It is continuing to implement recommendations from the Office of the Superintendent of Financial Institutions and has a rigorous capital management framework aligned with the new *Capital and Dividend Policy Framework for Financial Crown Corporations*. This framework ensures that BDC has the resources to deliver on its mandate while remaining sustainable and sound. It also ensures that BDC, as a development bank, is in a position to serve businesses by taking more risk and play its countercyclical role in the market, filling gaps when other lenders step back.

BDC has made important investments over the last years to deliver on its aspiration. For example, it has increased its presence across Canada to be more accessible to entrepreneurs, recently developed a program specifically targeting firms with the potential to have a disproportionate positive impact on the Canadian economy and is making it easier for entrepreneurs to do business with BDC.

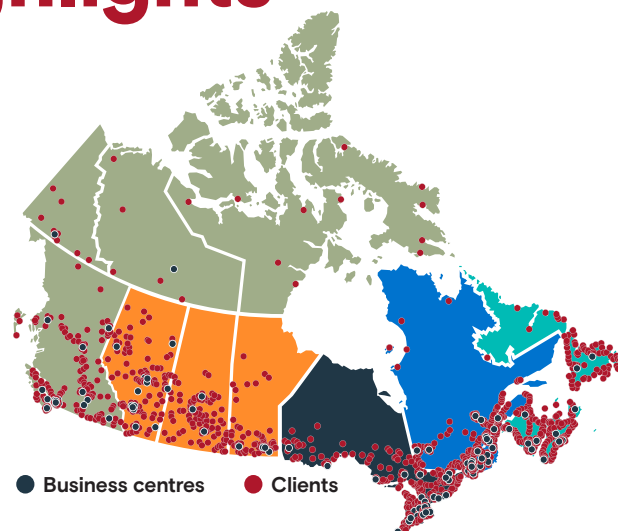
However, BDC continues to make concerted efforts to control costs and expects efficiency gains as well as an increased annual return on equity over the planning period as BDC profits from investments in technology and processes.

BDC is expected to remain profitable, with a net income increasing by 18% in fiscal 2018 to reach \$485 million.

# BDC profile... highlights

BDC serves more than 42,000 small and medium-sized enterprises (SMEs) in Canada (35,000 direct clients<sup>1</sup> and 7,000 indirect), including firms in rural and remote areas.

	Business centres	% of direct clients	Total commitment (\$ in billions)
■ B.C. and North	17	12%	2.9
■ Prairies	18	17%	5.2
■ Ontario	32	26%	6.7
■ Quebec	30	34%	7.8
■ Atlantic	13	11%	2.1
Total	110	100%	24.7 <sup>2</sup>



**BDC aspires to make Canadian entrepreneurs the most competitive in the world.**

## It has extensive reach.

- **96%** of its client base is made up of small businesses.<sup>3</sup>
- It has a significant web presence:  
**3.6 million** visits to BDC.ca  
**33,000+** eBook downloads  
**47,000+** website assessments
- Its publications for entrepreneurs and professionals have a combined circulation of **114,000**.
- It has **315,000** interactions with entrepreneurs per year.

## It is a complementary player in the market.

- It caters to underserved segments and teams up with various ecosystem players.
- **21%** of loans portfolio (by dollar value) is made through partnerships.

## It has an outstanding client satisfaction rate.

- **94%** of BDC's clients are satisfied with the services they received.

## It encourages business creation.

- BDC backs approximately **600** companies through direct and indirect venture capital (VC) investments. These companies employ about **30,000** people.
- BDC partners with **14** accelerators.
- BDC is a limited partner in **68%** of VC funds investing in Canada.
- **60%** of start-ups financed by BDC survive more than five years, compared to 51% of all Canadian SMEs.<sup>4</sup>

## It promotes international expansion.

- **18%** of BDC's clients are exporters compared to 10% of all Canadian SMEs.<sup>5</sup>

## It differs from other financial institutions and private service providers.

- It is the only bank devoted exclusively to entrepreneurs.
- It is the **1<sup>st</sup>** Canadian bank to obtain B Corp certification.<sup>6</sup>
- It takes more risk: **93%** of BDC's portfolio is sub-investment grade.<sup>7</sup>
- It plays a counter-cyclical role during economic downturns.
- All BDC clients have a relationship with a private sector financial institution.
- Its Special Accounts group and Business Restructuring unit offer dedicated attention to help clients experiencing difficulty.

Unless otherwise noted, all data are for fiscal 2016.



# ... lines of business

## BDC Financing

### Loans

Term loans with flexible repayment schedules

Committed  
**\$22.6**  
billion

Commitment by industry



Commitment by firm size



- 23% Manufacturing
- 12% Tourism
- 11% Retail
- 10% Commercial real estate
- 9% Construction
- 9% Wholesale
- 6% Transportation/storage
- 5% Business services
- 15% Other
- 17% 0-4 employees
- 13% 5-9
- 14% 10-19
- 35% 20-99
- 16% 100-499
- 5% 500+

BDC Financing clients employ **11%** of Canada's entire small business workforce.<sup>5</sup>

### Asset-backed securities

Debt financing that relies on the pooling of assets, under the Funding Platform for Independent Lenders (F-PIL)

Committed  
**\$680**  
million

In fiscal 2016, **6,754** SMEs benefited indirectly from BDC's role in F-PIL.

## BDC Advisory Services

Relationship-focused advisory services that help increase sales, improve operations, optimize technology and build management and international expansion capabilities, together with an initiative targeting high-impact firms

BDC Advisory Services completed **1,872** consulting mandates in fiscal 2016.

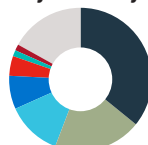
## BDC Capital

### Growth & Transition Capital

Cash flow, mezzanine, quasi-equity and equity solutions for growth and transition projects

Committed<sup>8</sup>  
**\$811**  
million

Commitment by industry



Commitment by firm size



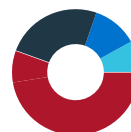
- 36% Manufacturing
- 20% Business services
- 12% Wholesale
- 8% Construction
- 4% Retail
- 2% Transportation/storage
- 1% Tourism
- 17% Other
- 3% 0-4 employees
- 3% 5-9
- 11% 10-19
- 46% 20-99
- 32% 100-499
- 5% 500+

**33%** of Growth & Transition Capital (G&TC) clients are high growth firms,<sup>9</sup> and **50%** are exporters.

### Venture Capital

Direct and indirect equity investments in multiple sectors

Committed  
**\$1.18**  
billion



**Direct commitment** (investments in companies)

**47%** **\$555.3 million**

- 26% \$301.0 million Information technology (IT)
- 14% \$170.7 million Healthcare
- 7% \$83.6 million Industrial, clean and energy technology (ICE)

**Indirect commitment** (investments in funds)

**53%** **\$623.2 million**

In fiscal 2016, every \$1 BDC invested in VC leveraged **\$4.82** from external investors.

Unless otherwise noted, all data are for fiscal 2016.

1 Direct clients receiving services from more than one business line have been counted only once.

2 Excludes securitization.

3 Based on total BDC Financing commitment as at March 31, 2016. Small businesses are defined as firms with fewer than 100 employees.

4 Industry Canada, *The State of Entrepreneurship*, February 2010.

5 Small Business Branch of Innovation, Science and Economic Development Canada, *Key Small Business Statistics*, June 2016. Small businesses are defined as firms with fewer than 100 employees.

6 B Corps (beneficial corporations) are businesses that act in ways that benefit society as a whole rather than focusing solely on making profits.

7 Refers to BDC Financing's outstanding loans portfolio. Sub-investment grade loans are rated BB+ or less.

8 Includes both BDC and non-controlling interests.

9 High-growth firms are defined as companies with annualized sales growth greater than 20% per year over a three-year period.

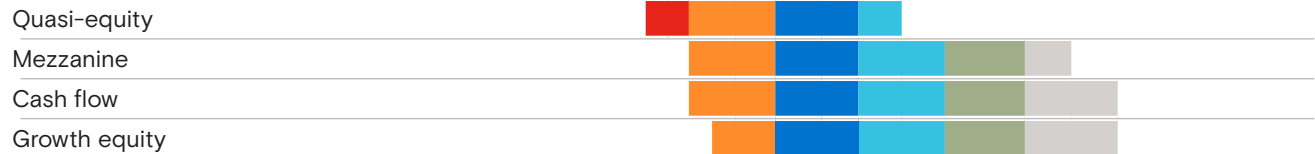
# ... offering through SME business journey



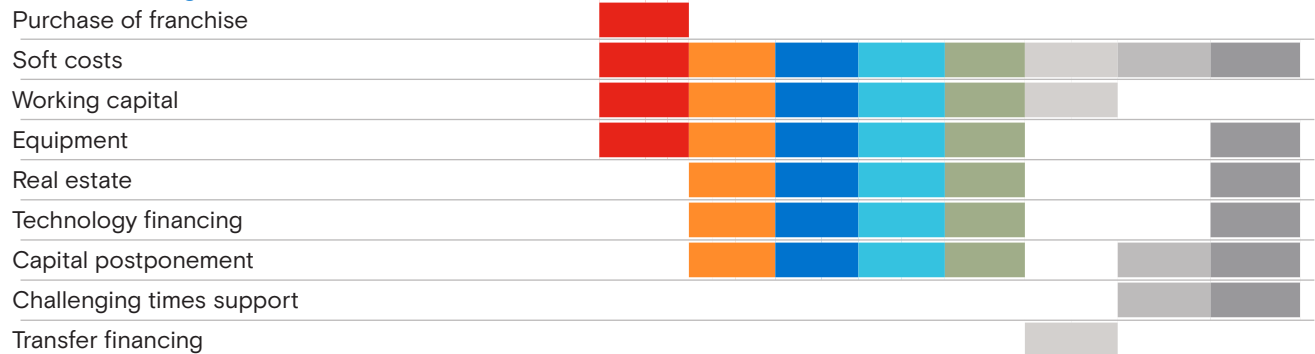
## Venture Capital



## Growth & Transition Capital

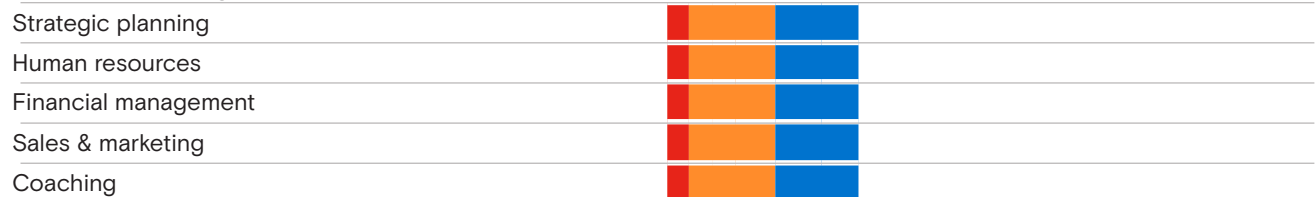


## BDC Financing

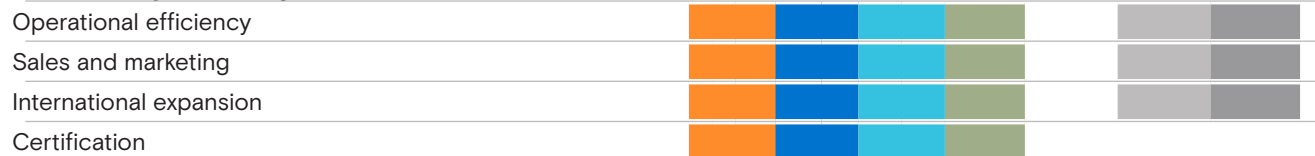


## BDC Advisory Services

### Small business/organizational capabilities



### Growth and productivity



### High-impact firms





# ... areas of focus

## Providing financial and advisory services

BDC provides SMEs with the financial and advisory services they need to improve productivity, innovate, scale up, and globalize to compete and thrive in today's economy. This support includes the following:

- patient, flexible capital for equipment, working capital, commercial real estate, and expansion projects
- tailored advisory services to drive growth, improve agility and productivity, and build organizational capability
- specific and complementary financing, capital payment postponements, and securitization to meet specialized needs
- support for more Canadian entrepreneurs and increased visibility through partnerships; new shared offices and business centres; and increased marketing and public relations

## Driving growth and international expansion

To help strengthen Canada's entrepreneurial ecosystem, BDC offers advice and growth capital at every stage of the business journey. It supports firms that have the potential to become Canadian champions and contribute significantly to the Canadian economy with the following solutions:

- seamless spectrum of growth capital, including VC, equity, quasi-equity, and subordinated debt solutions
- succession financing
- targeted, issues-based consulting methodologies and program targeting high-impact firms
- financing, advice and tools to help SMEs export and invest abroad

## Meeting specific SME needs

Canada has a dynamic entrepreneurial culture, but certain businesses and sectors have unmet needs. With tailored financing and advisory services, BDC serves segments such as the following:

- underserved demographics, such as youth, women, Indigenous and immigrant entrepreneurs
- underserved business types, such as small, social-purposed and new businesses
- regions with specific needs, such as the North and Atlantic provinces
- innovative sectors, such as aerospace, automotive, information and communication technologies (ICT), cleantech and fintech
- sectors with cyclical revenues, such as oil and gas, mining and tourism

### BDC's aspiration

To make Canadian entrepreneurs the most competitive in the world

## Collaborating with partners to reach more entrepreneurs

BDC increases its reach and impact on entrepreneurs through partnerships such as the following:

- local and international organizations
- associations and business networks
- financial institutions
- accounting firms
- provincial governments
- industry clusters and innovation centres
- regional development agencies (RDAs) and other federal entities, such as Export Development Canada (EDC)

A list of BDC's partners can be found in Appendix C.

## Spearheading innovation

BDC supports innovation by helping SMEs invest in research and development (R&D), ICT or state-of-the-art machinery, or to implement innovative processes. It is also a major player in fostering a vibrant venture capital ecosystem in Canada. BDC's support includes the following:

- indirect and direct VC investments
- support for ICT creation and adoption
- strategic initiatives and partnerships to foster business creation
- support for emerging industries such as cleantech and fintech
- financing to help firms bring innovative products and services to market
- advice to help clients improve operational efficiency and productivity and adopt ICT
- the Venture Capital Action Plan (VCAP), managed on behalf of the government, to attract private sector investment

## Sharing knowledge and expertise

With over 70 years' experience supporting clients in virtually every industry, in every region, and at every business journey stage, and drawing on its own research and internal know-how, BDC can equip entrepreneurs for success. It provides the following:

- educational content made available to entrepreneurs through an online platform
- opportunities for peer-to-peer connections and networking
- thought leadership on topics such as growth management, global competitive pressures, market and industry trends and export strategies

# Operating environment

**BDC's corporate plan is based on the following economic observations and assumptions**

BDC's aspiration of making Canadian SMEs the most competitive in the world is deeply rooted in the reality businesses face. BDC considers a number of factors in deciding how best to support SMEs in a manner that is complementary to the market while maximizing benefits to Canadian entrepreneurs.

## Economic conditions

After reaching a low in 2016, global economic growth is expected to accelerate over the next few years and range between 3% and 4%. Factors impacting global economic growth include the following:

- In China, the transition from an export-based to a domestic demand-based economy continues. Chinese economic growth is expected to remain slightly above 6% over the next few years.
- The pace of European growth is expected to remain well below a modest 2%, partly due to structural factors impeding productivity growth and uncertainty surrounding the impact of Brexit.
- In the U.S., the decline in investment, particularly in the oil and gas sector, has slowed the pace of growth in 2016. However, according to the Bank of Canada, the U.S. economy

■ = forecast

\* Includes large emerging markets in Asia, Latin America, the Middle East and Africa (such as India, Brazil and South Africa), as well as newly industrialized economies (such as South Korea). Excludes China.

\*\* Includes oil-exporting emerging markets (such as Russia, Nigeria and Saudi Arabia) and other advanced economies (such as the United Kingdom and Australia).

**Source:** Bank of Canada, *Monetary Policy Report*, January 2017.

Anticipated global economic growth	Share of global GDP (%)	Real GDP growth (%)			
		2015	2016	2017	2018
World	100	3.3	2.9	3.2	3.6
Oil-importing emerging market economies*	32	3.5	3.3	3.6	4.4
China	17	6.9	6.6	6.3	6.4
United States	16	2.6	1.6	2.2	2.3
Euro area	12	1.9	1.6	1.3	1.5
Japan	4	1.2	1.0	1.0	0.9
Canada	1	0.9	1.3	2.1	2.1
Rest of the world**	18	1.4	1.0	2.1	3.0

is expected to strengthen under the new administration, with growth reaching 2.3% by 2018. This is driven by an expected increase in infrastructure spending and corporate and personal tax cuts. It is too early to assess the economic impact of the new administration on the Canadian economy, but BDC will adapt as needed.

- The impact of the fall in crude oil prices has been two-fold: it has had adverse effects on oil-exporting countries, contributing to slowing global economic growth, but it has had a positive impact on the economic health of oil-importing countries. This has taken longer to appear but will continue in the near future.

In Canada, growth is expected to stay around 2% over the planning period. Factors impacting Canadian growth include the following:

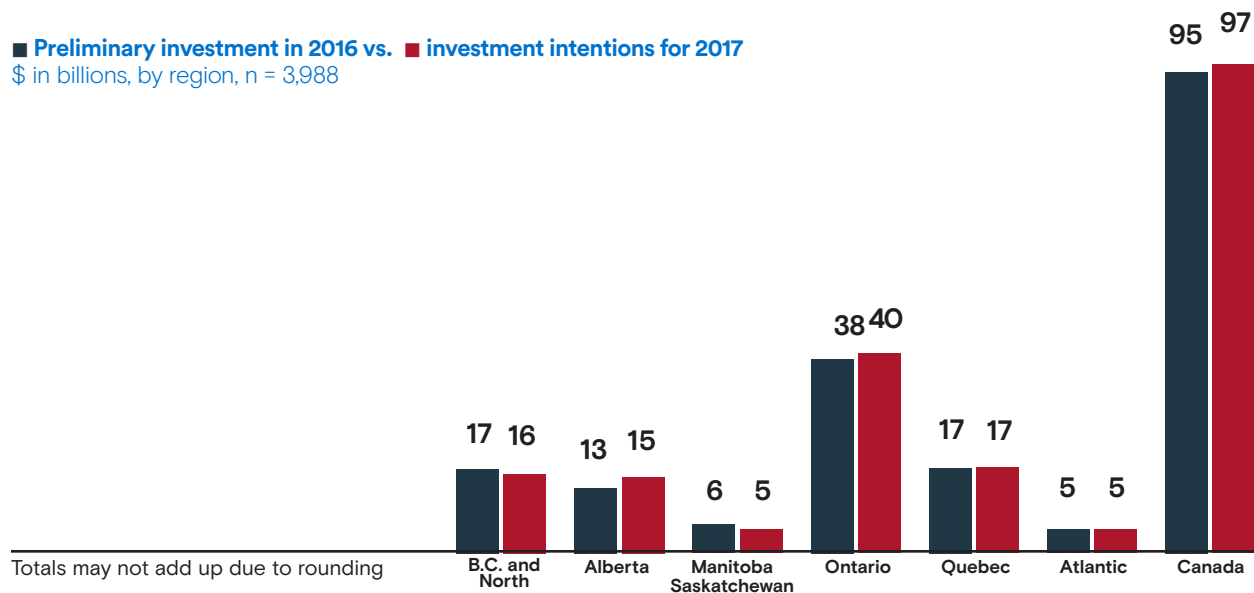
- Crude oil prices are expected to remain below their peak levels over the next few years, even if a supply and demand rebalancing does push prices up.
- Prices of most other commodities, especially metals, are expected to remain under pressure, due to increased global supply, combined with a slowdown in Chinese demand.

- The Canadian dollar is not expected to appreciate relative to the U.S. currency considering the divergence in monetary policy.
- Economic activity is expected to be stronger in sectors benefiting from the weakness of the Canadian dollar and from solid U.S. demand, such as manufacturing, tourism and transportation.
- Long-term interest rates are beginning to rise and may put upward pressure on the cost of acquiring commercial real estate and costly pieces of equipment.
- Some sectors, including non-residential construction, should gain from increased investments in infrastructure.

## Access to financing and capital

Overall credit conditions should remain favourable. A BDC study\* reveals that SMEs intend to spend more on investment projects in the coming year, especially to scale activities and increase productivity. This upswing, representing a 1.6% increase compared to investments made in 2016, is mainly due to increased confidence in the economy.

■ Preliminary investment in 2016 vs. ■ investment intentions for 2017  
\$ in billions, by region, n = 3,988



\* BDC, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2017*, January 2017.

However, the study also reveals that 31% of SMEs are having difficulty obtaining financing. Particularly affected are firms in industries facing headwinds such as the oil and gas sector which has been experiencing tighter conditions since 2015. Firms with limited tangible assets such as innovators and knowledge-based companies, exporters, start-ups and firms led by young people or by entrepreneurs with little credit history also have difficulty obtaining financing.

In the venture capital market, the amount of VC and the number of deals has risen since 2010. However, gaps remain, especially with respect to the amount of late-stage capital available to help technology firms achieve scale.

### Other key trends in the financial and management consulting services markets

The financial services industry is in a state of rapid change spurred by technological and demographic pressures. Customers expect seamless access to financial services—anytime and anywhere.

Non-traditional players, such as fintech companies, continue to challenge this space by targeting profitable banking frontiers such as payments and lending. Fintech adoption by Canadian consumers and SMEs remains low but is expected to triple in 2016 alone. The notion of “disruption” is starting to be replaced by “collaboration” as traditional lenders either work with fintech start-ups to enhance competitive differentiation or leverage in-house digital technologies to improve customer experience.

Management advisory services remain important for SME growth. Mid-sized and larger consulting firms tend to cater to the needs of larger businesses. For smaller businesses, the market for advisory services is very fragmented, dominated by independent practitioners and small firms.

### The challenge of growing competitive Canadian SMEs

Canada’s global competitiveness needs to improve. Canada dropped from 10<sup>th</sup> place on the World Economic Forum’s global competitiveness index in 2009 to 15<sup>th</sup> in 2016, spurred by drops in innovation capacity (19<sup>th</sup> to 26<sup>th</sup>), firm-level absorption of technology (22<sup>nd</sup> to 31<sup>st</sup>) and business sector spending on R&D (20<sup>th</sup> to 29<sup>th</sup>).

To drive the growth of the Canadian economy, businesses need to improve their competitiveness, but face many challenges.

→ **Difficulty scaling up.** A BDC study\* reveals that companies are smaller today than they were 10 years ago and are barely growing. Fewer small firms expand to become mid-sized firms, and very few of the latter become large firms. It impacts Canada’s competitiveness since large firms perform better in the areas that drive competitiveness: they are more productive, more innovative and more likely to export than smaller firms.

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\* BDC, *The Scale-Up Challenge: How are Canadian Companies Performing?*, 2016.

- **Lagging business productivity.** Canada's business productivity is only 73% that of the U.S. and barely above the average of OECD countries. An important factor driving this gap is that Canadian SMEs invest significantly less in information and communication technologies (ICT) than U.S. SMEs do, both as a percentage of gross domestic product (GDP) and per worker. In addition, the Canadian economy has a greater proportion of SMEs whose productivity is lower than that of large companies.
- **Gap in R&D spending.** Canadian SMEs invest less in R&D, as a percentage of GDP, than the U.S. or the OECD average. This gap has widened since the beginning of the 2000s.
- **Over-reliance on U.S. demand.** While Canada's exports are increasing, it is losing market share in the U.S. This indicates that growth of the U.S. economy does not stimulate Canadian exports as much as it used to, and that Canadian firms must diversify their exports.

This portrait of Canadian business competitiveness highlights many areas for improvement. This is why BDC is steadfast in its focus to help SMEs perform on the key drivers of competitiveness—innovation, scale, productivity and international expansion—to make them the most competitive in the world.

BDC's strategic focus is to enhance SME competitiveness by increasing access to capital and advice for entrepreneurs, accelerating the growth, innovation and productivity for targeted entrepreneurs, and improving the Canadian entrepreneurial ecosystem. BDC is committed to working with the private sector in a complementary fashion to achieve this goal.

As a responsible Crown corporation, BDC will continue to respond to Canadian SME market needs while using sound risk and capital management practices.

# 2

## Supporting innovation and productivity to unlock SME success

**With its Innovation Agenda, the government is developing a coordinated strategy on innovation to put Canada on a firm path to long-term economic growth. BDC has the tools and expertise to contribute to this agenda, especially in the areas of talent, emerging tech, and growing companies. Appendix B showcases what BDC does and will do to support the Innovation Agenda.**

Canadian businesses face competitive pressures both at home and abroad that impede their ability to create jobs and drive growth. Having a competitive edge is the key to success, and both innovation and productivity enhancements are essential to boost competitiveness. However, Canadian SMEs lag behind their peers on both fronts and must up their game.

A healthy technology sector—fuelled by business investments in technology and R&D—is necessary to drive innovation. A vibrant VC ecosystem also contributes to innovation as it offers investments to early-stage and rapidly growing companies. Through its support for tech companies and its extensive footprint in Canadian VC, BDC plays an important and complementary role in supporting innovation.

Innovation is also greatly intertwined with productivity. Businesses adopt innovation in the form of new or improved products and processes which, in turn, increase productivity. BDC provides the advice and financial assistance SMEs need to become more productive.

### Supporting Canadian technology SMEs

Whether it be for developing new tech products and services, investing in R&D, or acquiring or improving ICT, BDC's flexible financing gives tech SMEs the capacity they need to innovate.

Many tech entrepreneurs do not have collateral or established revenues to secure financing. In response, BDC is experimenting with a new **technology start-up loan facility** for companies with up to \$500,000 in sales.

BDC pays particular attention to pivotal technology areas, such as ICT, cleantech, and fintech.

**ICT**—While EY named Canada the best G20 country for providing digital businesses with access to funds,\* challenges remain in funding ICT development and adoption.

For SMEs with limited money, expertise and time, it can be difficult to take advantage of ICT-related opportunities. BDC is

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\* EY, *Disrupting the disruptors*, 2016.



exceeding its fiscal 2015 commitment to provide \$200 million in loans annually until 2017 to help companies that create or wish to invest in ICT. It also met its commitment to invest \$300 million in VC by 2017 for companies that create ICT.

BDC is also supporting ICT businesses in the cloud computing space and in other subscription-based revenue companies. It is adapting its lending criteria to better reflect their development cycle which requires them to make up-front investments in technology before acquiring clients and benefiting from recurring revenues.

In addition to financing, BDC offers advisory services to help bring innovations to market, including advice on issues such as ICT planning, strategy, security, online sales, Internet marketing and social media.

**Cleantech**—With more than 800 companies employing 50,000 people, the fast-growing Canadian cleantech industry is an important contributor to a high-skill and high-wage knowledge-based economy. It is also highly R&D-intensive and export oriented. Despite the fact that the industry is growing at about four times the rate of the overall Canadian economy, it is losing global market share.\* Compared to other technology sectors, cleantech firms generally exhibit higher capital intensity, longer than average technology prove-out cycles and more market entry barriers. To support firms in this industry, BDC:

- provides working capital to cleantech companies
- delivers advisory solutions to SMEs that help them improve operational efficiency and reduce consumption of materials
- provides early- to late-stage VC to innovative cleantech companies through its industrial, clean and energy technology (ICE) fund which was recapitalized in fiscal 2017 (to date, it has provided \$117 million to 20 innovative companies)
- invests in prominent cleantech VC funds, such as Chrysalix Energy III, EnerTech Capital Partners IV, and XPV Water Fund LP
- nurtures strategic relationships with two cleantech focused accelerators, Foresight Cleantech Accelerator (Vancouver) and Ecofuel (Montreal), and directly invests in their top graduating companies through its Venture Acceleration program (VAP)
- takes part in syndicated transactions for renewable energy (wind, solar and biomass) projects that have a cleantech component
- collaborates closely with Sustainable Development Technology Canada (SDTC) and Export Development Canada (EDC) to provide a better coordinated and more streamlined approach to supporting cleantech companies

\* Analytica Advisors, *Canadian Clean Technology Industry Report*, 2015.

**ICT loan acceptances**  
in fiscal 2016

 **\$313** million

**VC authorizations**  
in the ICT sector  
as at March 31, 2016

 **\$303** million

#### BDC partnership

**Canadian Innovation Exchange (CIX):** to provide venues where technology investors, innovative companies and entrepreneurs converge to accelerate the development and implementation of new ideas. Cleantech and fintech industries were the focus of recent CIX activities.

Over the planning horizon, BDC will consider a number of measures to fill gaps in the cleantech funding ecosystem, including the following:

- identifying opportunities to invest in new early- and late-stage private sector cleantech VC funds
- increasing working capital support to cleantech firms

**In its broadest definition, fintech includes any technological innovation in the financial services sector, including innovations in deposits, lending, payments, wealth, or financial literacy with the purpose of disrupting incumbents and creating new revenue sources or reducing costs.**

← **Fintech**—The fintech space is broad and could significantly disrupt the financial services industry. Fintech start-ups are based on new technologies or technology-enabled innovative business models. Globally, nearly \$23 billion U.S. in VC and growth equity has been deployed to fintech over the last five years and online loans have grown by 123% annually since 2010.\* Fintechs hold great potential to improve the Canadian economy.

This is why BDC wants to support the emerging Canadian fintech market. In collaboration with MaRS Discovery District, BDC hosted the first Canadian Fintech Summit in April 2016 in Toronto, which brought together more than 350 of the brightest fintech leaders and participants. A second edition will take place in April 2017.

BDC supports fintech in multiple ways:

- by making VC investments to help grow fintech start-ups into global players, providing value-added support and advice
- by supporting, through indirect financing, tech lenders serving SMEs
- by encouraging SME to adopt new financial technologies, such as proven productivity tools, in line with BDC's goal to improve the competitiveness of Canadian SMEs
- by exploring opportunities to adopt additional financial technologies within BDC to enhance the digital client experience

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\* McKinsey & Company, *Cutting Through the Noise Around Financial Technology*, February 2016.

## A key Canadian VC player

BDC supports the government's Innovation Agenda in many ways, chiefly by strengthening the innovation ecosystem through its VC activities. These help build the skills of VC fund managers while enabling the launch and growth of technology-focused businesses and the commercialization of innovation.

BDC is pursuing its vision of making Canadian VC a financially viable, attractive asset class for private sector investors, backed by at-scale, top-tier Canadian funds balanced by new models in emerging sectors.

BDC is Canada's largest and most active early-stage technology investor. With over 30 years of experience in providing patient investment and value-added support, it helps entrepreneurs create and grow innovative Canadian companies that generate value and prosperity. BDC VC backs approximately 600 companies through direct and indirect investments. In fact, BDC is a limited partner in independent private VC funds and funds of funds representing 68% of funds actively investing in Canada.

Through its direct and indirect VC activities, including VCAP, BDC helps many innovative start-ups grow to be successful market-leaders, including those raising over \$100 million in private investment, such as e-commerce leader Shopify, biotech start-up Zymeworks, and quantum computing leader D-Wave.

The Canadian VC market has made great strides in recent years, especially in the number of venture investment deals, which increased by 38% since 2010, and total dollars invested, which has increased by 97% over the same period. The Venture Capital Action Plan has successfully attracted significant private sector investors to Canadian VC, including a new generation of fund investors such as high net worth individuals and corporates. It has resulted in the scaling of several funds, increasing available capital for promising start-ups. Despite these improvements, BDC research indicates the following:

- Canada lags behind other countries in developing larger tech champions. Canada's VC industry continues to face smaller exits and a decline in average deal size. This, combined with the small average size of Canadian VC funds, indicates a lack of capital needed to address the expanding ambitions of technology firms in later growth stages.
- Canadian fund managers are still having difficulty raising funds, thereby limiting the amount of capital available to firms seeking VC.
- Private sector interest and participation in the Canadian VC industry has improved but is still below the level needed to make the industry self-sustainable.

**→ BDC continuously reassesses its VC strategy based on current market conditions and on research into existing gaps, emerging technology trends and innovation clusters across the country.**

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## Barriers to scaling technology companies

To support the Innovation Agenda, BDC partnered with the Canadian Venture Capital Association to conduct roundtables across Canada to solicit insights from VC industry players on barriers to scaling tech companies.

### Key takeaways include the following:

- scaling technology companies to become champions is a priority
- significant market gaps remain, especially in later stage VC investments
- access to talent is a top barrier
- Canada should be strategic in supporting accelerators with a track record of success
- the private sector must be involved to address these barriers
- corporations need to play a stronger role in the innovation ecosystem and to be early adopters of Canadian technology

In fiscal 2016, every \$1 BDC invested in VC leveraged \$4.82 from external investors.

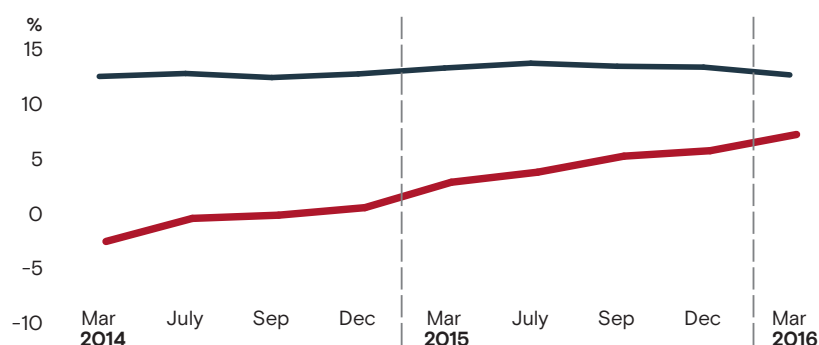
## Indirect investing strategy

One goal of BDC's indirect investing strategy is to restore VC as an attractive asset class by investing in top-tier, at-scale, private sector funds and generating positive results. BDC invests in more than 50 funds and its portfolio performance has improved in recent years, moving upward toward the more mature U.S. VC asset class, as measured by the Cambridge U.S. VC benchmark.

### 10-year internal rate of return (IRR) trend, quarterly

March 2014 to March 2016

■ Cambridge U.S. VC benchmark ■ BDC VC indirect portfolio



A second goal is to help strengthen the VC ecosystem by creating the next generation of Canadian fund managers and attracting talent. Over the planning horizon, BDC will continue to support talented emerging managers active in underrepresented industries such as cleantech and agricultural technology.

## Venture Capital Action Plan

The Venture Capital Action Plan is designed to help create a vibrant and sustainable VC ecosystem in Canada, led by the private sector. VCAP also increases available capital for promising innovative Canadian start-ups. Through VCAP, the government committed \$340 million to four private sector funds of funds and \$50 million to four high-performing VC funds. This capital was used to leverage over \$900 million in private sector capital and \$113 million from provincial governments, bringing the total venture capital raised under VCAP to \$1.4 billion.

VCAP's success in attracting significant private sector capital back into the VC ecosystem has helped increase both the depth and breadth of VC activity in Canada, helping emerging VC managers find new sources of capital to raise their funds. More established VC managers have also been able to scale their funds to better support Canada's best-in-class technology companies while they grow and expand into international markets.

As at December 2016, 22 Canadian VC funds had received funds under VCAP. The last annual data available (March 2016) show that total investments under VCAP resulted in \$453 million being committed to 126 Canadian companies, with more expected in the coming years.

BDC will continue to apply its usual rigour and high standards as an agent of the government and to work with the private sector to ensure that VCAP plays the critical role for which it was designed.

## Direct investing strategy

BDC manages three direct investment funds which operate on the same principles as private sector funds. Since fiscal 2012, these funds have supported the development of 98 innovative companies and are generating positive returns. In response to market demand, BDC allocated an additional \$150 million to create a second IT fund in fiscal 2016 and more recently announced \$135 million for its second ICE fund. It is also considering a second healthcare fund which would primarily focus on emerging technology clusters such as antibody technology and imaging and machine learning technology.

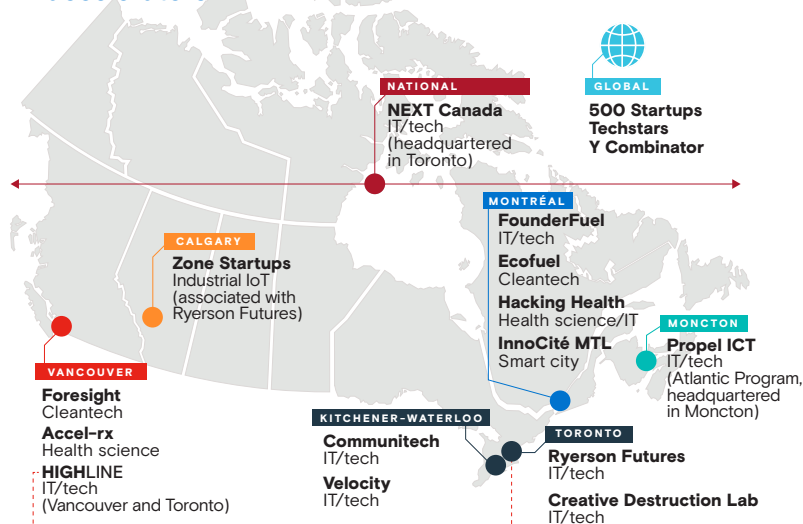
BDC introduced a **co-investment initiative** in fiscal 2016 to invest directly in companies, alongside its indirect fund partners, to do the following:

- address the needs for late-stage growth capital for the best technology companies
- increase funding in emerging sectors
- balance early-stage capital with greater late-stage domestic VC funding

In fiscal 2017, BDC launched the **Ascend program** to support, together with its internal or other fund managers, a select few larger and rapidly growing technology companies, with the aim of creating Canadian technology champions. BDC will offer all of its financing and advisory solutions to these potential champions, increasing their chances of success.

BDC is also a leader in reinforcing the early-stage innovation ecosystem and filling the gap in seed funding with its **Strategic Initiatives and Partnerships (SIP)**. In addition to other ecosystem-building activities, SIP's **Venture Acceleration program (VAP)**, formerly known as the Convertible Notes program) works with a select group of accelerators to identify and make initial seed investments in promising graduates active in ICT, healthcare, or industrial, clean and energy technologies.

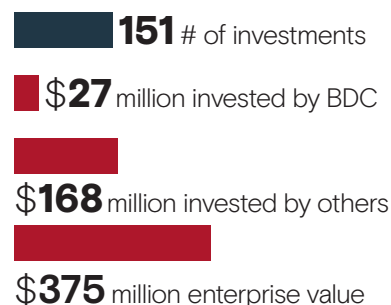
### VAP accelerators



## BDC's three direct investment funds

- 1) Information technology
- 2) Healthcare
- 3) Industrial, clean and energy technology

### VAP investments since inception as at March 31, 2016



## Supporting women in tech

As part of its efforts to support women entrepreneurs, BDC will invest \$70 million\* in women-led technology firms.

- A new program will make \$60 million available to women-led tech firms and will offer both venture and growth capital and will be open to new and existing clients.
- An additional \$10 million will be allocated to regional initiatives, beginning with the MaRS Investment Accelerator Fund to form a new women's pre-seed and seed fund and increase the depth of networks and resources for women founders.

BDC is also exploring the development of a female angel investment education curriculum and encouraging women to participate in BDC-supported accelerators.

### BDC partnerships

**Communitech:** BDC partners with Communitech to play a more active role in the Kitchener–Waterloo innovation hub. The organizations collaborate to share tech entrepreneurs, global market connectivity and the commercialization of innovation. A dedicated BDC employee will also be located in Communitech's space to ensure BDC responds to the unique needs of this thriving tech ecosystem.

**Canadian Intellectual Property Office (CIPO):** BDC partners with CIPO to help raise entrepreneurs' awareness and use of intellectual property. BDC front-line employees will receive training on intellectual property-related issues and solutions.

## Strengthening the innovation ecosystem with non-investment support

Beyond providing capital to promising innovative Canadian businesses, BDC is leveraging its extensive knowledge of the market and its many relationships with industry stakeholders to have an even greater impact on entrepreneurs and the ecosystem. These value-added initiatives include the following:

- strengthening innovation clusters, enabling the emergence of new technology firms, mentoring entrepreneurs and improving their chance of commercialization success by working with 14 accelerator programs focused on speeding up the path from proof of concept to sales
- creating synergies in the innovation ecosystem by fostering relationships with key actors, such as the National Angel Capital Organization and the Canadian Technology Accelerator program, through which BDC helps entrepreneurs develop a global network, focus on commercialization, and connect with potential investors, clients and acquirers
- publishing research and opinions on the VC market (for example, BDC will research the issue of talent needed to scale venture companies, an important component of the government's Innovation Agenda)
- facilitating peer-to-peer meetings or discussions with industry stakeholders for optimal collaboration and alignment
- developing training materials for specific stakeholders such as VC fund managers (for example, BDC offers, under its FUNDamentals Principals seminar series, opportunities for VC fund managers to hear from world experts on fund management best practices)

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\* Includes the \$50-million investment in women entrepreneurs publicly announced in November 2016.



- building on the success of **FUNDamentals Principals**, BDC will be launching a training program to bolster Canadian fund manager capabilities in fiscal 2018. This program, developed with the Kauffman Fellow Society—a California-based, world-leading venture education expert—will offer intensive training sessions in core operational and management issues to further support Canadian fund manager capabilities
- launching the **Corporate Innovation and Venture program** to reach institutional and corporate investors, highlighting opportunities for corporate venturing in Canada's ecosystem. The first of a series of national events, the Corporate Innovation Summit, will be developed in collaboration with United Kingdom-based Global Corporate Venturing and held in fiscal 2018. The Summit will bring together a multi-sector roster of international leaders in corporate venturing, senior managers of Canadian corporations and key government officials

These offerings provide additional opportunities for BDC to help great ideas become great companies that contribute to the growth of the Canadian economy.

## Helping entrepreneurs boost productivity

In a survey carried out for BDC on specific management issues facing entrepreneurs, 81% of respondents listed boosting productivity as a top challenge. With its advisory solutions to enhance operational efficiency, BDC can help entrepreneurs adopt a smarter approach to operations, quickly identifying improvements that will improve the bottom line while setting the stage for future growth.

BDC's operational efficiency experts facilitate firm-level efficiency improvements leading to productivity gains by helping them to do the following:

- compare their productivity with that of other Canadian businesses
- isolate the main causes of waste in operations
- define performance indicators and objectives
- implement best practices for improving performance, streamlining processes and reducing costs
- adopt new technologies
- attain quality management standards, such as ISO

### BDC partnership

**Canadian Manufacturers and Exporters (CME):** BDC partners with CME to offer a series of Innovation Insights events through which participants learn about the latest advances in advanced manufacturing, operational efficiency and productivity. These events manufacturing SMEs innovate, be more productive and compete in the international marketplace.

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## **Promoting productivity during BDC Small Business Week™**

BDC celebrates entrepreneurs across Canada through its annual flagship event, BDC Small Business Week™. The theme of the 37<sup>th</sup> edition was “Measure up! Shape your future” and the event focused on productivity, an important driver of competitiveness for SMEs.

To encourage more businesses to improve their productivity, BDC launched the world’s most comprehensive business productivity benchmarking tool. Entrepreneurs can use this tool at no cost to compare their firms’ productivity levels with those of other companies in the same sector and help them pinpoint what to focus on to improve performance.

While productivity enhancements increase profitability and competitiveness for businesses, initial investments are typically necessary. BDC provides financing with flexible terms and conditions to help entrepreneurs invest in the following:

- new technology, including ICT (hardware, software, and so on)
- R&D, products and processes
- real estate or modernization of existing facilities
- equipment and machinery

BDC also offers indirect support to entrepreneurs wanting to purchase equipment through its \$300-million guarantee of Laurentian Bank’s portfolio of commercial equipment financing. This agreement allows Laurentian Bank to offer more flexible terms to SMEs in the oil and gas sector and the forestry sector, and to take greater risks on SMEs—risks that BDC has experience in managing.

## Summary: Supporting innovation and productivity to unlock SME success

### BDC recently:

- tested market demand for a financing product for technology start-ups
- tested market demand for a financing product for businesses in the cloud computing space, and launched a capital solution for ICT companies with monthly recurring revenues
- hosted the first Canadian Fintech Summit
- started investing in fintech start-ups through VC and financing fintech lenders serving SMEs through indirect financing
- partnered with the Canadian Venture Capital Association to conduct a series of round-tables with VC industry players to gain insights on barriers to scaling technology companies
- created a second industrial, clean and energy technology fund
- launched the Ascend program to better support rapidly growing technology companies through co-investments
- launched the Corporate Innovation and Venture program to promote corporate venturing in Canada
- launched the world's most comprehensive business productivity benchmarking tool

### Over the planning period, BDC will continue to address evolving market needs by, for example:

- identifying opportunities to invest in new early- and late-stage private sector cleantech venture capital funds
- increasing working capital support to cleantech firms
- exploring ways to encourage SME adoption of new financial technologies
- continuing to co-invest in promising late-stage, VC-backed Canadian technology firms
- continuing to support talented emerging fund managers active in underrepresented industries such as cleantech and agricultural technology
- focusing on high-potential firms' ability to scale up via investments and non-investment activities through Strategic Initiatives and Partnerships
- investigating the issue of the talent needed to scale venture companies
- launching a training program to bolster Canadian fund manager capabilities
- considering the creation of a second Healthcare fund
- providing additional support to women entrepreneurs and investors in technology by investing venture and growth capital in women-led tech firms, supporting regional initiatives to form a new women's pre-seed and seed VC fund, exploring the development of a female angel investment education curriculum, and encouraging women to participate in BDC-supported accelerators

# 3

## Championing SME growth and international expansion

Growing firms, especially high-impact and high-growth firms, play a vital role in boosting Canada's competitiveness, as recognized by the government's Innovation Agenda. However, Canadian firms have difficulty scaling up. To help firms overcome this challenge, BDC has a tailored offering geared toward firms with ambitions to grow.

### Supporting growing firms at every step of their growth journey

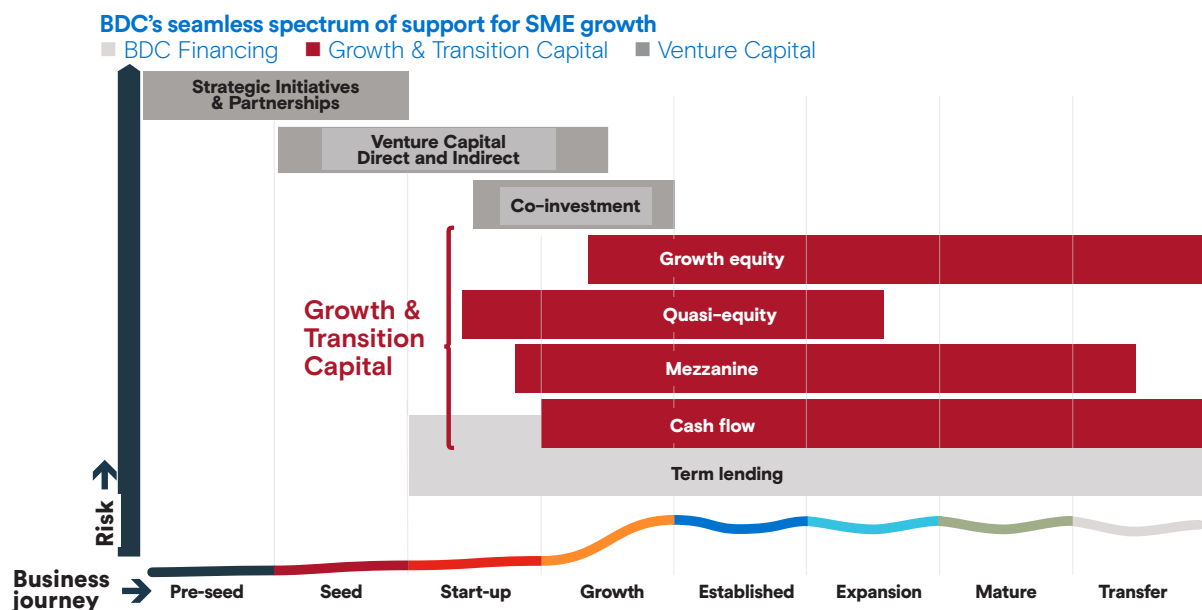
With its patient capital and advice spanning the business journey of growing firms, BDC is able to accompany Canada's ambitious SMEs from creation to becoming global champions.

At one end of the spectrum, BDC's direct and indirect VC investments, as described in the previous section, are vital to the Canadian start-up ecosystem. BDC also provides loans to help new businesses.

As new ventures grow and mature, BDC offers term lending to help finance projects to accelerate growth, develop new products, hire and retain employees, and expand to new markets. BDC also assists in the purchase of equipment, acquisition of land and buildings, expansion or renovation of existing premises, and investment in ICT.

### Providing capital for growth and transition

As businesses move further along on the maturity scale, their needs change. They are often looking for more patient funding that helps them grow without diluting ownership of share capital.



To meet the needs of these companies, BDC provides the following, usually in collaboration with other lenders.

- **cash flow financing**—debt financing with fixed monthly principal and interest repayments for companies with a consistent track record of positive earnings and strong cash flow
- **mezzanine financing**—debt financing with customized repayment terms adapted to the firm's cash flow, allowing companies to preserve working capital needed to fuel growth
- **quasi-equity financing**—non-dilutive debt financing with the advantages of an equity investment, in which the repayment terms are back-ended, helping companies with an uneven earnings history or that will reach profitability in the near future

With these solutions, BDC subordinates its security to that of other lenders and as a result takes more risk, helping entrepreneurs secure the financing required to execute their growth plan.

In later stages of growth, unmet demand still exists for SMEs needing small-ticket equity, especially for high-growth firms. BDC addresses this demand with its **Growth equity solution**, investing in companies poised to pursue growth opportunities. In fact, BDC provides more than capital, acting as a management-friendly growth partner and sharing in the entrepreneur's vision as a long-term minority investor. To date, 15 transactions totalling \$32 million have been concluded. In the coming years, BDC will assess opportunities to expand the supply of growth capital by investing in mid-sized growth capital or private equity funds.

At the far end of the business journey comes the transition period. The current demographic shift leading to increasing retirements is creating business transition issues. As a generation of business owners makes way for young, ambitious and innovation-driven entrepreneurs, opportunities for growth are renewed and BDC's offering ensures that those opportunities materialize.

Typical **succession financing solutions** include management buy-in and buy-out, as well as acquisition. BDC also offers business owners the opportunity to withdraw hard earned capital while maintaining their ownership of and commitment to the company, which owners often see as an attractive alternative to selling their company.

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## Scaling up successfully

- In a BDC ViewPoints panel survey, 91% of clients who responded considered the growth of their business to be important.\*
- A BDC study revealed that only 2% of mid-sized firms succeed in becoming large businesses, exceeding the 500-employee mark. Those that are more likely to become large businesses share the following traits:
  - They are already relatively more productive than their competitors in the same economic sector.
  - They invest more in their fixed assets.
  - They are present in at least three Canadian provinces.

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## High-growth firms

High-growth firms have annualized growth greater than 20% per year in sales over a three-year period. They represent about 33% of clients in the Growth & Transition portfolio.

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\* The panel is composed of a group of about 5,500 Canadian entrepreneurs and business professionals that have agreed to share their expertise and opinions regarding the reality of SMEs in today's economic landscape. Panelists are asked to complete online surveys a few times a year.

These solutions also help Canadian entrepreneurs acquire companies so that they remain in Canadian hands.

BDC also launched a solution in fiscal 2017 catering to firms looking to grow by acquisition, giving them a comprehensive solution for all their financing needs. **Unitranche** combines different types of secured and unsecured debt in a single instrument with a custom repayment schedule that gives a business maximum flexibility.

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## High-impact firms

High-impact firms account for about 5% of Canadian SMEs and have a disproportionate impact on the Canadian economy. They generally:

- are mid-sized, although smaller firms with particularly high growth can also fit this profile
- grow more quickly than their peers
- have a management team that exhibits higher ambition and higher risk tolerance than their peers

## Tailored support for high-impact firms

In fiscal 2016, BDC began implementing its **Growth Driver program** (previously known as the High-impact firm initiative) to help high-impact Canadian companies and their leaders reach new heights. Based on extensive research, BDC found that high-impact firms share a number of common challenges at predictable points along their growth paths, including the need for high-risk financing and for strategic advice to help them scale up, improve productivity, innovate and expand internationally.

BDC has refined its Growth Driver approach over the last year to ensure maximum impact. The program is now based on a two- to three-year journey that places the entrepreneur and management team at the centre of a multidisciplinary support system, headed by a highly experienced executive advisor and supported by a team of experts and analysts.

The collective knowledge and business experience of the dedicated client-facing team helps each entrepreneur do the following:

- clarify and select optimal business growth avenues
- create a three-year strategic plan to capture the growth avenues
- develop a financing thesis to support the growth plan
- implement, execute and govern the growth plan
- develop his/her leadership skills to grow him/herself and the company
- receive on-going coaching and mentorship from a trusted advisor



The Growth Driver program aims to help companies realize sustainable growth by providing frameworks for thinking, methodologies and tools for doing, and expert guidance throughout the journey. With this support, these high-impact firms will have a greater capacity to grow, create jobs and boost the Canadian economy.

Over the planning horizon, BDC will continue to target potential participants. BDC will also continue developing events targeting the needs and issues of high-impact firms.

## Supporting international expansion to develop Canadian global champions

It is more important than ever for Canadian entrepreneurs to succeed in international markets. However, SMEs looking to expand abroad face many challenges, such as identifying the right market, finding reliable business partners and accessing financing. To this end, BDC provides a wide range of initiatives to help Canadian entrepreneurs take their deserved place on the world stage.

Through its advisory services, BDC helps SMEs determine whether they are ready to internationalize, find opportunities to export, and identify which markets best suit them. In fiscal 2017, it developed solutions to:

- help firms enter the U.S. market, Canada's most important trading partner
- help SMEs make internationalization decisions and leverage opportunities generated by Canada's free trade agreements. BDC worked closely with Global Affairs Canada and Export Development Canada (EDC) to develop the Tariff Finder tool

## Leveraging Canadian and global partners

BDC takes an informed and complementary approach to international markets by collaborating with its domestic and international networks and contacts including partners such as Global Affairs Canada and its Trade Commissioner Service, other development banks such as members of The Montreal Group (an initiative spearheaded by BDC), QG100, OG100, the Canada China Business Council, and the Toronto Board of Trade.

## Creating synergies with federal partners to accelerate SME growth

The **Accelerated Growth Service (AGS)** is a whole-of-government initiative launched in June 2016 to facilitate a more coordinated approach to supporting established firms with high-growth potential. With AGS, federal organizations\* work together to provide coordinated access to their services, programs and offerings, rather than requiring entrepreneurs to visit each organization independently. Firms in BDC's Growth Driver program are natural candidates for AGS, and BDC will ensure that they benefit from both. AGS's goal is to serve 1,000 high-potential firms over the next few years. A pilot is currently underway to test various approaches.

With its dedicated resources, BDC is playing a leadership role in developing the approach and operationalizing the concept so that the initiative will be delivered in the most efficient way. Over the planning period, BDC will continue to work with AGS partners to ensure the success of this service.

\* Innovation, Science and Economic Development Canada, Global Affairs Canada, Export Development Canada, National Research Council—Industrial Research Assistance Program, regional development agencies, and BDC.

BDC also finances Canadian SMEs with internationalization projects, notably those wanting to do business in the U.S.

Work will continue to expand BDC's portfolio of solutions to support international expansion. It is currently looking at a solution that would help more Canadian SMEs effectively leverage e-commerce in their sales and marketing activities. Other potential products could include an export-readiness self-assessment tool, an international strategic planning solution and market-entry solutions for additional countries.

BDC's international expansion offering complements EDC's activities. The two organizations work closely together to maximize their impact on Canadian SMEs. A formal collaboration agreement, in place since 2011, highlights their complementarity and co-operation in terms of sharing their offerings with clients, referring clients and sharing intelligence on entrepreneurs' needs.

To maximize synergies between them, BDC and EDC are developing a coordinated approach to improving SME export capabilities and, ultimately, increasing the number of Canadian exporters. This approach includes, for example:

- coordinating market research activities
- developing a joint "Exporter Journey" clearly describing each organization's support, advice, financing and insurance products
- increasing collaboration on external events and conferences
- increasing cross-training of employees

#### **BDC's and EDC's complementary roles**

Since 2011's formal agreement, close strategic and tactical collaboration has produced more than 1,400 cross-referrals and resulted in many joint activities.

BDC encourages and supports entrepreneurs in the early stages of their export journey through advisory and financial services including export readiness assessment, market identification and entry strategies, working capital and asset financing.

With an extensive network of business centres and strategic partnerships, BDC reaches approximately 42,000 entrepreneurs in Canada. It is in a unique position to promote the benefits of exporting and to help Canadian SMEs do so.

As companies begin seeking tangible export business opportunities, EDC provides a suite of financing and insurance products that helps mitigate many trade-related risks, supports expansion of exports through trade strategies, and leverages a wide network of international contacts, in collaboration with Global Affairs Canada.

## Summary: Championing SME growth and expansion

### BDC recently:

- refined and continued deploying its Growth Driver program (formerly known as the High-impact firm initiative)
- played a leadership role in the development and deployment of the Accelerated Growth Service (AGS) program and will continue to be involved
- launched Unitranche, which combines different types of secured and unsecured debt in a single instrument
- developed solutions to support international expansion, including a U.S. market entry advisory solution and a free trade agreement Tariff Finder tool
- with EDC, continued developing a coordinated approach to improving SME export capabilities

### Over the planning period, BDC will continue to address evolving market needs by, for example:

- assessing opportunities to expand the supply of growth capital by investing in mid-sized growth capital or private equity funds
- continuing to enrol firms in its Growth Driver program
- expanding its portfolio of solutions to support international expansion, which may include an e-commerce storefront solution, an export-readiness self-assessment tool, an international strategic planning solution and market-entry solutions for additional countries
- participating in international business forums and associations that directly improve SMEs' abilities to export or invest abroad
- continuing to collaborate with EDC to help Canadian SMEs access international markets

# 4

## Having a greater impact on more entrepreneurs by increasing access to capital and advice

**By being innovative and collaborative BDC fuels success and builds confidence in entrepreneurs and the projects they are undertaking.**

**BDC contributes to the government's Innovation Agenda by supporting highly skilled entrepreneurs and innovators that are essential to Canada's long term economic growth.**

BDC's purpose is to create prosperity in Canada by providing a unique combination of guidance, investment and financial support to respond to entrepreneurs' needs and help them achieve their ambitions.

Consistent with its public policy mandate and its complementary role, BDC aims to have a greater impact on more entrepreneurs by:

- paying particular attention to underserved segments of the economy
- increasing credit availability by collaborating with other lenders
- increasing access to advisory services
- enhancing its presence and reach throughout Canada
- making it easier for entrepreneurs to do business with BDC

### Meeting the specific needs of more entrepreneurs

In line with its development mandate, BDC provides flexible and patient financing, together with advisory services, to complement the private sector and ensure that Canadian entrepreneurs of all ages and origins thrive in all Canadian regions and industries. BDC pays particular attention to the following:

- underserved demographics
- underserved business types
- regions with specific needs
- innovative sectors
- sectors with cyclical revenues

Underserved demographics	Underserved business types	Regional specificities	Innovative sectors	Cyclical revenues
<b>Who?</b> <b>Young entrepreneurs</b> <b>Why?</b> They often lack credit history, information, resources and networks	<b>How?</b> <ul style="list-style-type: none"> <li>● Offers both flexible financing and advisory services, such as business coaching and marketing workshops</li> <li>● Collaborates with 14 accelerators</li> <li>● Partners with Futurpreneur Canada to: <ul style="list-style-type: none"> <li>– provide up to \$30,000 to aspiring entrepreneurs. In fiscal 2016, BDC authorized \$17 million to more than 600 young entrepreneurs</li> <li>– finance more entrepreneurs by guaranteeing \$20 million of Futurpreneur Canada's credit facility. As at March 31, 2016, this partnership has benefitted 214 entrepreneurs</li> <li>– offer moMENTum, a national program matching young entrepreneurs with experienced entrepreneurs</li> </ul> </li> <li>● Promotes and celebrates young entrepreneurs through the following: <ul style="list-style-type: none"> <li>– Vanier College BDC Business Case Challenge—a national business case competition for pre-university students</li> <li>– Enactus—the BDC Entrepreneurs First Project awards \$2,500 each to six Enactus teams to implement projects in their communities; since 2011, this program has involved 579 students and exposed more than 2,000 people to entrepreneurship as a viable career path</li> </ul> </li> </ul>			
<b>Who?</b> <b>Women entrepreneurs</b> <b>Why?</b> Their businesses tend to start and stay small, have a high proportion of intangible assets and operate in industries less likely to experience high growth	<b>How?</b> <ul style="list-style-type: none"> <li>● Announced additional support for women in the technology start-up space in fiscal 2017 (page 20)</li> <li>● Is testing a regional approach to co-finance women entrepreneurs</li> <li>● In fiscal 2016, earmarked \$700 million in term lending over three years for majority women-owned businesses; since then, it has authorized \$549 million (as at December 31, 2016)</li> <li>● In fiscal 2016, sponsored or participated in 15 events across Canada—on topics such as digital strategy, women leading high-growth firms, networking and leadership—and reached more than 3,300 women entrepreneurs.</li> <li>● Held 60 sessions nation-wide on financial literacy</li> <li>● Sponsored the 2016 Start-Up Canada Women Entrepreneur Award for women entrepreneurs who have had an impact on Canadian entrepreneurship</li> </ul>			

#### BDC partnership

- **Chartered professional accountants, Community Futures and organizations promoting women entrepreneurs:** BDC partners with these organizations to deliver educational courses on women's financial literacy across Canada, especially in rural areas.

Underserved demographics	Underserved business types	Regional specificities	Innovative sectors	Cyclical revenues
<b>Who?</b> <b>Immigrant entrepreneurs</b> <b>Why?</b> They often lack credit history, information, resources, and network	<b>How?</b> <ul style="list-style-type: none"> <li>● Is testing a small business loan product in fiscal 2017 that provides up to \$50,000 to newcomers, using a credit assessment method that recognizes the lack of credit history and takes into account entrepreneurial experience and education</li> <li>● Supports ACCES Employment's Entrepreneurship Connection to provide immigrants with knowledge of the Canadian business environment and mentoring opportunities. The program is available in Toronto, Ottawa and Hamilton and will soon be piloted in Vancouver. To date, it has helped more than 285 new Canadians and supported the creation of 114 businesses</li> <li>● Takes part in a multi-party working group to help Syrian refugees integrate into the workforce</li> </ul>			
<b>Who?</b> <b>Indigenous entrepreneurs</b> <b>Why?</b> Many are located in remote areas, and legislation prohibits the use of on-reserve assets as collateral for non-Indigenous creditors	<b>How?</b> <ul style="list-style-type: none"> <li>● Has a dedicated team that understands the unique challenges Indigenous businesses face: it fosters relationships with Indigenous communities, organizations (such as the National Aboriginal Capital Corporation Association) and Indigenous financial institutions to deepen its understanding of financing gaps for Indigenous entrepreneurs and continue to improve their access to financing</li> <li>● Complements existing services offered by Indigenous financial institutions with: <ul style="list-style-type: none"> <li>–flexible term loans that donate a percentage of the annual interest to a charitable organization of the client's choice</li> <li>–the <b>Aboriginal Business Development Fund</b>—\$750,000 committed to three Indigenous grassroots organizations that offer microcredit loans</li> <li>–advisory services—experienced consultants deliver entrepreneurial training related to priorities identified by Indigenous entrepreneurs; they leverage technology to reach entrepreneurs in all regions, especially remote areas</li> </ul> </li> <li>● Authorized \$117 million to 215 Indigenous businesses in fiscal 2016, representing a total commitment of \$263 million to 385 clients, a 13% increase in the number of clients compared to the previous year</li> </ul>			



Underserved demographics	Underserved business types	Regional specificities	Innovative sectors	Cyclical revenues
<b>What?</b> <b>Small businesses</b> (< 100 employees) <b>Why?</b> The often lack available collateral  Over 75% of BDC's clients need small loans, with over 99% of them being small businesses	<b>How?</b> <ul style="list-style-type: none"> <li>● Offers flexible financing to start, buy or transfer a business; invest in technology; buy commercial real estate; purchase equipment; and finance expansion projects</li> <li>● Extended 10,833 small loans to small businesses in fiscal 2016, an increase of 1,893 over the previous year</li> <li>● Makes it easier for small businesses to access loans of up to \$100,000 through its online platform (page 42)</li> </ul>			
<b>What?</b> <b>New businesses</b> <b>Why?</b> They often lack revenues and business know-how	<b>How?</b> <ul style="list-style-type: none"> <li>● Provides advisory services, working capital, and funds for fixed assets, marketing, start-up fees or purchase of a franchise</li> <li>● Makes direct and indirect VC investments in start-ups and collaborates with 14 accelerators</li> <li>● In fiscal 2016, financed close to 2,000 new businesses to help them get off the ground</li> </ul>			
<b>What?</b> <b>Social-purpose firms</b> <b>Why?</b> They prefer bankers who understand their purpose	<b>How?</b> <ul style="list-style-type: none"> <li>● Understands their purpose given that BDC itself is certified B Corp</li> <li>● Provides financing and advisory services to an increasing number of social entrepreneurs</li> <li>● Builds relationships with organizations supporting social entrepreneurs across Canada and participates in related events</li> <li>● Helps grow the Social Venture Exchange, an online platform providing financial expertise and connecting social ventures with potential investors</li> <li>● Promotes the benefits of B Corp certification with its new free business performance evaluation tool, which entrepreneurs can benchmark their social and environmental impact against that of their peers</li> </ul>			

#### BDC partnership

- **Rise Asset Development:** This social-purpose organization provides microfinancing to people with mental health challenges. In fiscal 2017, BDC increased support to the organization by contributing \$150,000 to its fund, in addition to its \$40,000 annual pledge.

Underserved demographics	Underserved business types	Regional specificities	Innovative sectors	Cyclical revenues
<b>Where?</b> <b>Northern regions</b> <b>Why?</b> Firms in these regions face unique challenges, including difficulty finding and retaining skilled talent, high transportation costs, remote locations, limited infrastructure, and non-existent or too costly advisory services		<b>How?</b> <ul style="list-style-type: none"> <li>Is implementing a strategy focused on the needs of SMEs in the North, which includes:               <ul style="list-style-type: none"> <li>collaborating with partners for greater geographic coverage</li> <li>using technology to make its advisory services more accessible</li> <li>tailoring financing and advisory services to address Northern-specific needs</li> </ul> </li> </ul>		
<b>Where?</b> <b>Alberta</b> <b>Why?</b> The province needs for a more diversified economy		<b>How?</b> <ul style="list-style-type: none"> <li>Signed a letter of intent with the Government of Alberta in March 2016 to help businesses grow, diversify and innovate</li> <li>Negotiated a \$1-billion agreement with ATB Financial in July 2016 to support Alberta-based SME access to capital, through which each party contributes \$500 million in new business loans</li> <li>Provided a relief program for clients affected by the wildfires in Fort McMurray; about 30 entrepreneurs benefitted from capital and interest payment postponements on their loan</li> </ul>		
<b>Where?</b> <b>Atlantic provinces</b> <b>Why?</b> BDC wants to help entrepreneurs in the region thrive		<b>How?</b> <ul style="list-style-type: none"> <li>Partners with industry stakeholders and the Atlantic Canada Opportunities Agency to help Canadian companies capitalize on opportunities stemming from the National Shipbuilding Procurement Strategy</li> <li>Is engaging with the Nova Scotia and New Brunswick governments to find opportunities to collaborate on issues linked to the federal Atlantic Growth Strategy</li> </ul>		
<b>BDC partnership</b> → Government of Alberta, Alberta Innovates Technology Futures, EDC and ATB Financial: BDC partners with these organizations to increase export development, improve delivery of coordinated business services, and collaborate on joint solutions to enhance VC and address other financing challenges businesses face.		<b>BDC partnership</b> → Community Futures Development Corporations (CFDCs): BDC partners with CFDCs to increase credit availability in rural markets. Over the last three years, BDC has authorized close to \$100 million to SMEs in collaboration with CFDCs.		

**What?****Aerospace sector****Why?**

This sector needs to innovate to maintain and grow global market share

It faces the financial burden of high development costs and very long production periods

**How?**

- Provides tailored, patient and flexible financing solutions based on its deep knowledge of the industry to support the development of niche products and productivity enhancements
- Helps firms increase scale and global reach, notably through mergers, acquisitions and equity investments
- Provides high-value advice and non-financial support; to complement its approach over the planning horizon, BDC will put more emphasis on helping firms' develop and execute strategic plans

**What?****Automotive sector****Why?**

This sector needs to innovate to meet changing environmental, safety and communication standards and to improve productivity

**How?**

- Recently repositioned its automotive lending facility to test market demand and better meet the needs of tooling and parts manufacturers lacking the financial means to capitalize on growth opportunities
- Will be deepening its knowledge of the autotech sub-sector, notably by taking part in industry-related activities

**What?****Technology sector****Why?**

This sector needs to innovate to gain global market share

It is fast growing, highly R&D intensive and export oriented

**How?**

- Offers advisory services to help firms bring innovation to market and integrate ICT
- Offers financing solutions geared towards firms that do not have enough collateral or established revenues to secure financing
- Offers VC to tech companies
- Pays particular attention to pivotal technology areas such as ICT, cleantech and fintech

See page 14 to page 22 for more details.

**BDC partnership**

- **GAC, ISED and local chambers of commerce:** BDC partners with these organizations to introduce high-performing Canadian firms to important global actors, help them integrate into global value chains and help them scale up by diversifying their customer base. Recently, BDC has participated in events focused on the oil and gas, aerospace and shipbuilding industries.

**What?****Oil and gas sector****Why?**

The fall in crude oil prices is affecting the supply chain

**How?**

- Committed \$500 million to oil and gas firms in November 2015:
  - as at December 31, 2016, it had authorized 1,856 loans totalling \$489 million in financing, quasi-equity financing and equity
  - to continue supporting recovery and diversification, BDC committed an additional \$350 million in fiscal 2017
- Provides tailored advisory services to better address entrepreneurs' needs, especially the need to tackle productivity issues
- With the price of oil not expected to increase significantly in the near term, BDC will continue to monitor entrepreneur needs for exporting assistance, diversification, mergers and acquisitions, and working capital for business improvement

**What?****Cyclical/seasonal industries****Why?**

They have inconsistent revenue flow

**How?**

- Offers tailored repayment schedules to match revenue generation patterns in industries such as tourism, fisheries, agriculture and mining

## Increase credit availability with the help of other lenders

BDC partners with other financial institutions to increase SME access to financing through its **Co-lending program** by sharing or taking on more risk.

Similarly, **syndicated loans**, which involve a group of lenders, offer the possibility to finance larger projects. For example, this type of solution is used to finance capital-intensive, public-private partnerships infrastructure projects; reserve-based lending; renewable energy projects; and asset-based lending.

**Indirect financing** is another way BDC serves more SMEs. It partners with financial intermediaries to finance portfolios of auto and equipment loans and leases; finances other types of SME lending, such as cash-flow lending and receivables lending; and de-risks transactions for banks and credit unions for SME lending.

Through the **Funding Platform for Independent Lenders (F-PIL)**, a partnership between BDC and TAO Asset Management, BDC uses securitization techniques to fund creditworthy finance companies in the auto and equipment space through risk-sharing arrangements. With its securitization lending platform, BDC targets smaller and emerging independent finance companies to help them grow in size and sophistication, thereby increasing credit available to SMEs.

BDC will continue to search for opportunities to use this platform with independent companies beyond the auto and equipment areas. In addition to securitization, BDC could consider lending directly to certain finance companies that provide advice or financing that improves the SME ecosystem.

BDC will also continue to work with other banks, financial institutions and credit unions to expand its indirect reach, while continuing to develop an approach to tap into the institutional investor base (pension funds and insurance companies).

### Co-lending authorizations

Fiscal 2016

 **\$335** million

### Syndicated loans authorizations


Fiscal 2016

 **\$416** million

### Number of SMEs BDC has helped to date through indirect financing

 **13,000+**

### F-PIL's disbursements since inception (fiscal 2012)

 **\$1.035** billion

**BDC knows from experience that entrepreneurs benefit from sound advice and that access to advisory services is a key growth enabler for Canadian firms. A new BDC study\* confirms that BDC's impact on the sales and employment growth of its clients is generally greater when they receive both financing and advisory services.**

## Increasing access to quality advice

Canadian SMEs are led by ambitious entrepreneurs who have the success of their businesses at heart. They are, however, confronted by business challenges for which they may not be equipped, such as finding ways to reach more clients, improve productivity and strengthen their management skills.

However, the market for advisory services geared toward SMEs is fragmented. This is why BDC has transformed its advisory services business model, leveraging its national network of subject-matter experts to deliver proven advisory solutions, with the aim of increasing Canadian SMEs' access to timely and relevant advice.

Since fiscal 2015, BDC has developed more than 25 high-quality solutions to help entrepreneurs address major challenges throughout their firms' business journey—to increase sales, improve operational efficiency, adopt and leverage technology and build management skills. These new solutions allow BDC to tailor projects to client needs while applying a common approach to project delivery. Client demand for these new solutions confirms the market need for BDC's offering and approach.

## BDC Advisory solutions at a glance

<b>Growth</b> Increase sales	<b>Productivity</b> Improve operational efficiency	<b>Organizational capabilities</b> Build management skills
Market intelligence	Operation optimization potential	Business coaching
Sales and marketing diagnostic	Essential optimization projects	Human resources management (HR for Small Business + HR Growth)
Digital marketing diagnostic	Advanced optimization projects	Financial management for small businesses + advanced financial management
Brand influence	ISO, HAACP and GFSI**	Strategic planning + strategic planning for small business
Website power	Technology action plan	Advisory boards
Promotion results	Technology investment plan	
Sales impact	System selection support	

\*\* International Standards Organisation certification, Hazard Analysis Critical Control Point and Global Food Safety Initiative.

## BDC partnership

→ **Investissement Québec (IQ):** BDC partners with this organization to enhance the productivity of Quebec manufacturers by jointly financing BDC advisory solutions to improve operational efficiency

\* BDC, *Measuring BDC's impact on its clients (2008-2012)*, December 2016.

To make it easy for entrepreneurs to do business with it, BDC has refined its approach to better cater to the unique needs of both smaller and larger businesses.\* Smaller businesses benefit most from a coaching-based approach designed to increase knowledge and build capacity in business management fundamentals such as strategic planning, financial management, human resources management, and sales and marketing. Larger businesses have more complex needs that are better addressed by exploring core issues in depth and developing a roadmap to address those issues.

Over the planning period, BDC will continue to work with entrepreneurs to ensure that the projects it delivers truly have a measurable impact on their businesses. It will focus on refining its business development and delivery models to address SMEs' varying needs, and it will adjust its offering to reflect market requirements.

## Strengthening the entrepreneurial ecosystem by sharing knowledge

In addition to providing advisory services, BDC helps entrepreneurs by connecting them to its extensive network of local and international partners. It also helps clients draw on BDC's deep understanding of what it takes to create and grow competitive businesses.

### → **Educative content available to all entrepreneurs.**

BDC provides high value to entrepreneurs through online content that helps them solve business challenges, learn from experiences of peers or gain insights into economic trends affecting SMEs.

In fiscal 2017, BDC continued to increase the breadth of its online content by adding hundreds of pieces of new content and making it easier for entrepreneurs to find relevant information with an intuitive search engine. Over the planning period, BDC will continue to improve its educative content by, for example, developing a face-to-face learning program for high-impact firms on topics such as leadership, growth management and going global.

## **BDC's advisory services continue to complement those available in the market:**

- They cater to all types of entrepreneurs in every region, leveraging technology to serve rural and remote areas.
- They complement other consulting firms' offerings with a range of services aligned to the reality and budgets of SMEs.
- They support the development and sustainability of small consulting firms by partnering with them to deliver high-value services.

**Money is not all entrepreneurs need to succeed. They also need advice, knowledge and skill-building opportunities to make decisions and create new growth opportunities for their businesses.**

Visits to BDC.ca

**3.6+** million

Website assessments

**47,000+**

eBook downloads

**33,000+**

Business plan template downloads

**52,000+**

\* Smaller businesses < \$2 million in revenues > larger businesses.



**In fiscal 2016 alone, approximately 19,000 entrepreneurs participated in BDC entrepreneurship activities across Canada.**

→ **Opportunities for peer-to-peer connections and networking.** Another way BDC reaches more entrepreneurs is by organizing or sponsoring entrepreneurship-related events. Often in collaboration with partners, it offers seminars and conferences on topics affecting businesses and their leaders. In addition to being informative and educational, these activities are ideal venues for peer-to-peer networking. As part of this initiative, BDC is developing activities targeting high-impact firms and the unique challenges they face.

→ **Thought leadership to inform the entrepreneurial ecosystem.** BDC has had deep connections with entrepreneurs across the country for over 70 years, through which it has acquired a wealth of knowledge and expertise about how to strengthen the Canadian entrepreneurial ecosystem. It continuously enriches its knowledge of business-related issues through research, studies and analysis.

By sharing this information through a variety of channels, BDC informs stakeholders on matters that affect their business and the health of the ecosystem.

#### **BDC's recent and upcoming research**

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<i>The scale-up challenge: How are Canadian companies performing?</i>	Canadian SMEs and the sharing economy
<i>Five game-changing consumer trends</i>	Barriers to scale for Canadian tech champions
<i>Productivity matters: Benchmarking your company to up your game</i>	Executive talent gap in Canadian tech companies
<i>Measuring BDC's impact on its clients (2008-2012)</i>	Key factors of success for Canadian SME exporters
<i>Investment intentions of Canadian entrepreneurs: An outlook for 2017</i>	Are Canadian SMEs ready for Manufacturing 4.0"?

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## Enhancing BDC's presence in the entrepreneurial ecosystem

### BDC's new brand identity

To have a greater impact on more entrepreneurs, BDC introduced a new brand identity in fiscal 2017. It communicates who BDC is and what it stands for: the only bank devoted exclusively to Canadian entrepreneurs, accompanying them at every stage of their business journey by helping them take the bold steps necessary to succeed.

Over the planning horizon, BDC will continue to invest in its overall visibility through advertising, including a significant online presence, to continue raising awareness of its offering and serve more entrepreneurs.

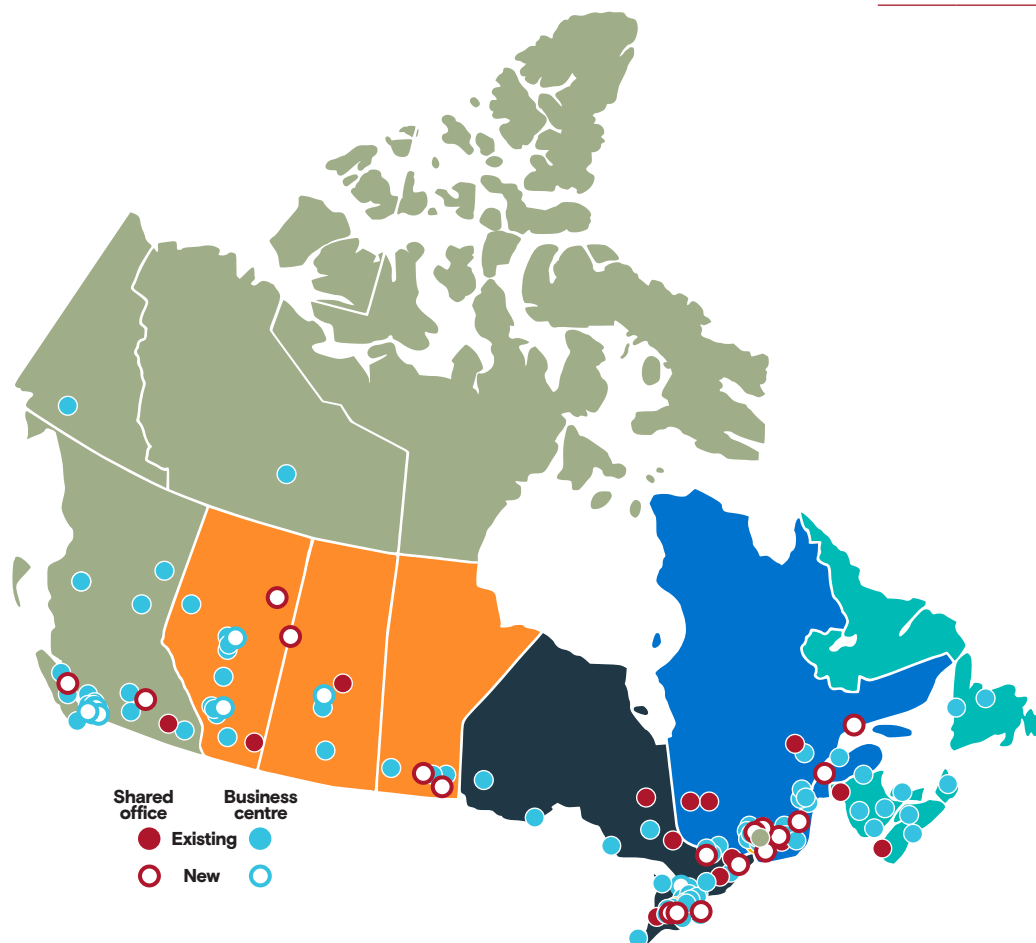
### Increasing BDC's presence and reach

The launch of the new brand builds on BDC's efforts to be present where entrepreneurs are. While BDC loans account for only 3% of Canadian business loans, it is better positioned to deliver its development mandate when it is physically present across Canada. Fiscal 2017 marked the third year of a four-year initiative to increase BDC's physical presence to be more accessible to entrepreneurs, especially in western Canada and Ontario. As at September 30, 2016, BDC had opened eight new business centres, added 18 new shared offices, relocated 24 business centres and hired 140 new employees.

### BDC's increased presence

By fiscal 2018, BDC will have:

8	new business centres
18	new shared offices
24	relocations to create more regional impact
149	new employees to staff these locations



A key challenge to address is the organization's capacity to attract, train and retain talent, especially in certain Canadian regions. BDC's recognition in rankings such as Canada's Top 100 Employers (11 consecutive years), Canada's Best Diversity Employers (seven consecutive years), Top Employers for Canadians Over 40 (six consecutive years), and Best Employers for New Canadians (six consecutive years) helps ensure that potential candidates are aware of BDC's reputation as an employer of choice.

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### **BDC partnerships**

BDC partners with more than **290** public and private sector organizations to create synergies and maximize its reach and impact on entrepreneurs.

### **Reaching more entrepreneurs through partnerships**

To reach as many Canadian SMEs as possible, BDC partners with public and private sector organizations at the regional, national and international levels. These partners share BDC's purpose and, through them, BDC is able to:

- provide its financing and advisory services through direct and indirect channels to reach underserved markets
- enhance its contribution to provincial and regional development by better understanding regional specificities and priorities
- collaborate with key stakeholders to improve Canada's entrepreneurial ecosystem

BDC will continue to focus on strengthening ties with existing partners including provinces and regional development agencies, and on fostering new relationships with key players in the entrepreneurial ecosystem.

A list of BDC's partners can be found in Appendix C.

### **Making it easier for entrepreneurs to do business with BDC**

The ease and speed of access to needed financing and advice is of paramount importance to entrepreneurs. BDC is sensitive to this reality and continuously assesses its processes and delivery model to make it even easier for SMEs to benefit from its services.

- SMEs' needs can vary greatly depending on each company's size and complexity. As such, BDC is adapting its offering and delivery channels to reflect those differences and increase the ease, speed and convenience of doing business with BDC.
- BDC is improving its online offering by streamlining the information requirements, increasing the ceiling for online loans from \$50,000 to \$100,000, and automating its processes, thereby making access to financing more timely and efficient for small clients across the country.

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### **Ease. Speed. Convenience.**

BDC wants to offer entrepreneurs ease, speed and convenience to efficiently increase its reach and better meet evolving client expectations.

- BDC is also using its online delivery channel to facilitate the loan authorization process with certain partners, namely Futurpreneur Canada and Quebec-based Community Futures Development Corporations. It is looking to replicate the approach with more partners in the future, especially those catering to underserved groups, such as young entrepreneurs and those located in remote areas.
- With its mobility strategy, BDC is enabling client-facing employees to work anywhere, at any time and from any device. This allows for much better connectivity with clients. Following the success of a fiscal 2016 pilot, BDC equipped all account managers with tablets and mobile applications that allow them to:
  - finalize pre-approved loans in a single visit to the client
  - gather relevant internal and external information on a client's history and industry, thereby significantly reducing processing and disbursement times for some types of loans and enabling more meaningful discussions with clients

Over the planning period, BDC will continue to develop and deploy additional mobile applications that will help its front-line employees make real-time risk assessments, accelerate the process for signing consulting mandates, approve loans almost instantly and present clients with interactive scenarios that demonstrate the impact of different options.

- BDC is adopting cloud-based technologies that enable employees, entrepreneurs and partners to develop deep and long-lasting relationships by seamlessly communicating and collaborating inside and outside the boundaries of the organization.

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## Putting innovation into practice

Into the planning horizon, BDC will continue to “walk the talk of innovation” by adopting technologies, including new financial technologies, to improve client experience.

## Summary: Increasing access to capital and advice to have a greater impact on more entrepreneurs

### BDC recently:

- continued to cater to underserved segments:
  - authorized over 50% of its \$700-million commitment to majority women-owned businesses
  - developed a social and environmental impact benchmarking tool for businesses and renewed its B Corp certification
  - began testing a small business loan product for immigrant entrepreneurs in Ontario
  - organized, in collaboration with partners, activities to foster relationships between Canadian firms and important global actors in the oil and gas, aerospace and shipbuilding sectors
  - extended a relief program for clients affected by the wildfires in Fort McMurray
  - collaborated with ATB Financial to offer additional support to Alberta-based SMEs
- developed more than 25 high-quality advisory solutions to help entrepreneurs address challenges throughout their business journey
- increased the breadth of its online educative content
- published studies on SME growth challenges and productivity
- launched a new brand identity to increase awareness of BDC among entrepreneurs
- opened 8 new business centres, added 18 new shared offices, relocated 24 business centres and hired 140 employees
- made it easier for SMEs to do business with BDC by deploying its mobility strategy, increasing the ceiling for online loans and adopting cloud-based technologies

### Over the planning period, BDC will continue to address evolving market needs by, for example:

- focusing on fostering relationships with provinces and regional development agencies, and on developing partnerships with key players in the entrepreneurial ecosystem to increase reach
- testing a regional approach to co-finance women entrepreneurs
- focusing on social entrepreneurs and sensitizing clients to the benefits of B Corp certification
- providing an additional \$350 million to firms affected by the fall in crude oil prices
- enhancing its indirect financing reach by:
  - possibly using its securitization lending platform with independent companies outside the auto and equipment areas, or lending directly to certain finance companies
  - searching for opportunities with other banks, financial institutions and credit unions
  - developing an approach to tap into the institutional investor base
  - developing a face-to-face learning program for high-impact firms to help improve their business-related capabilities
  - continuing to leverage new technologies to make it easier to do business with BDC

# 5

## Objectives, performance measurement and results

BDC's performance measures and targets are based on the business environment in which Canadian SMEs operate, as presented in Chapter 1, as well as BDC's previous and expected performance. **BDC's performance measures support its aspiration to make Canadian entrepreneurs the most competitive in the world. They are aligned with Shareholder priorities and BDC's client impact strategic objectives below.**

### ■ Increasing access to capital and advice for entrepreneurs

As a development bank, BDC's role is to meet the needs of underserved entrepreneurs with its combination of guidance, investment and financial support that complement the private sector offering. BDC pays particular attention to certain demographics, such as women and immigrant entrepreneurs and certain business types, such as small businesses and those with limited available collateral. To reach as many underserved SMEs as possible BDC, partners with public and private sector organizations. BDC also focuses on offering ease, speed and convenience to efficiently increase its reach and better meet evolving client expectations.

### ■ Accelerating growth, innovation and productivity for targeted entrepreneurs

Canadian SMEs continue to face challenges hindering their competitiveness: difficulty scaling up, lagging productivity, low spending on R&D, and over-reliance on U.S. demand. With a special focus on firms that have the potential to impact the Canadian economy the most, such as high-growth and high-impact firms, BDC provides capital and advice that enable SMEs to succeed, especially by accelerating their growth, innovation, productivity and globalization.

### ■ Improving the Canadian entrepreneurial ecosystem

With over 70 years' experience supporting Canadian SMEs, BDC has gained a deep understanding of SME challenges. It shares its expertise through a variety of easily accessible channels, such as online educational content and research to ensure a better understanding of success factors so that the Canadian entrepreneurial ecosystem can be healthier and even more vibrant. BDC is in a unique position to establish relationships and collaborate with partners and influencers, so that together, they enable the success of Canadian SMEs. BDC is especially active in strengthening the innovation ecosystem to make Canadian VC a financially attractive asset class for private sector investors. In addition to its direct VC funds, whose positive returns demonstrate the viability of the asset class, BDC invests in private sector funds to help create the next generation of Canadian fund managers. It also leverages its extensive knowledge of the market and its many relationships with industry stakeholders to provide a suite of non-investment ecosystem-building initiatives.

## BDC's performance measures

### Short term (1 year)

		Actual fiscal 2016	Target fiscal 2017	Estimate fiscal 2017	Target fiscal 2018
■ Provide financing to small businesses	# of acceptances <sup>1</sup>	10,833	11,000	11,700	11,700
■ Provide asset-light financing	\$ of acceptances, G&TC and BDC Financing unsecured loans (\$ in millions)	1,099	1,210	1,200	1,240
■ Support women entrepreneurs	\$700 million financing for majority women-owned businesses, cumulative fiscal 2016 to fiscal 2018	292	460	600	700
■ Support Indigenous entrepreneurs	# of clients identified as Indigenous	—	—	500	550
■ Make it easy for clients to do business with BDC	% of very satisfied clients <sup>2</sup>	65	65	66	65
■ Work in partnership to extend reach and provide support to entrepreneurs	# of transactions done through partnerships <sup>3</sup>	2,071	2,200	2,250	2,300
	# of indirect clients <sup>4</sup>	7,328	8,000	8,400	8,000
■ Provide advisory services to accelerate growth, innovation and productivity	# of mandates for BDC Advisory Services <sup>5</sup>	1,872	—	1,860	1,875
■ Support Canada's most promising firms and enable them to contribute fully to the economy	% of \$ of acceptances for high-growth firms, G&TC	33	35	35	35

Unless otherwise noted, all data are sourced from BDC's portfolio

- Increasing access to capital and advice for entrepreneurs
- Accelerating growth, innovation and productivity for targeted entrepreneurs
- Improving the Canadian entrepreneurial ecosystem

1 BDC Financing and Growth & Transition Capital loans with a commitment size of ≤ \$750,000.

2 "Very satisfied" clients gave a score of 9 or 10 out of 10 for their overall satisfaction with BDC services.

3 Includes transactions done in collaboration with chartered banks, other lenders, government agencies and Crown corporations, and community futures and other economic development agencies, and under specific agreements.

4 Excluding clients served by ATB Financial.

5 Includes mandates for high-impact firms, international expansion and consulting.



## Medium term (3 years)

		Actual fiscal 2016	Target fiscal 2017	Estimate fiscal 2017	Target fiscal 2020
■ Support women-led tech firms	\$ authorized to women in tech (VC) (\$ in millions, cumulative to fiscal 2020)	—	—	—	50
■ Support Canada's most promising firms and enable them to contribute fully to the economy	Total revenue of high-impact firms that participate in the Growth Driver program (\$ in millions)	559	1,500	2,000	8,800
■ Help entrepreneurs take advantage of global opportunities	# of clients who export	5,553	5,750	5,750	6,350

## Long term (5 years)

		Actual fiscal 2016	Target fiscal 2017	Estimate fiscal 2017	Target fiscal 2022
■ Fulfill its complementary role by serving underserved entrepreneurs	% of BDC Financing portfolio that is sub-investment grade <sup>6</sup>	93	—	93	Maintain minimum of 93
■ Provide financing and advisory services that enable clients to succeed	% of clients who reported a positive impact on their business following the services they received from BDC <sup>7</sup>	89	89	89	Maintain minimum of 89
■ Help restore the venture capital asset class to profitability to attract private sector investors	Overall BDC direct VC funds total value to paid-in capital (TVPI) <sup>8</sup>	1.23	1.24	1.22	1.25 or higher
■ Accelerate entrepreneurs' competitiveness	Results of BDC's Impact Study <sup>9</sup>			BDC has a positive impact on revenue growth	BDC has a positive impact on revenue growth

<sup>6</sup> Sub-investment grade is rated BB+ or less.

<sup>7</sup> Source: BDC's Viewpoints survey.

<sup>8</sup> TVPI, a VC industry standard metric, is a ratio of the current value of investments to the original amount invested. BDC's direct VC funds are Information Technology (IT), Healthcare, and Industrial, Clean and Energy Technology (ICE) and this includes subsequent funds IT II, Healthcare II and ICE II.

<sup>9</sup> Source: Statistics Canada, BDC: *Measuring BDC's impact on its clients*.



# Progress on initiatives included in the 2016-17 to 2020-21 corporate plan

## **Gradually deploy an initiative to remove barriers to competitiveness for high-impact firms in Canada:**

- rebranded as the Growth Driver program. The approach was refined throughout the fiscal 2017 pilot phase
- will continue to target potential participants and expects to enrol over 200 firms by fiscal 2020. BDC will also continue developing a series of events specifically targeting the needs and issues of high-impact firms

## **Refine its offering of value-added advisory services designed to improve the competitiveness of SMEs:**

- in fiscal 2017, the last year of this three-year initiative, BDC completed the development of over 25 BDC advisory methodologies. These allow to tailor projects to respond to client needs while applying a common approach to project delivery. Client demand for these new solutions confirms the need in the market for BDC's offering and approach
- refined its approach to better cater to the unique needs of both smaller (revenues < \$2 million) and larger SMEs (revenues > \$2million)

## **Open new business centres and optimize partnerships and marketing to ensure its financing, investment and advisory services are accessible and visible to entrepreneurs in Canada:**

- since fiscal 2015, BDC opened eight new business centres, added 18 new shared offices, relocated 24 centres and hired 140 new employees. This initiative is expected to finish on target in fiscal 2018

## **Increase its equity offering to address the needs of growth-oriented firm:**

- continues to focus on offering growth equity offering to position itself as an entrepreneur-friendly growth partner, sharing in the entrepreneur's vision as a long-term partner and investor

## **Invest and co-invest in a variety of promising Canadian technology companies from early to late stage while continuing to invest in its three internal investment funds:**

- created a second direct fund to support firms in industrial, clean and energy technologies. A second fund for healthcare is being considered within the planning period
- continues rolling out its co-investment approach to address the need for increased funding for emerging sectors. In fiscal 2017, BDC launched the Ascend program to increase its capacity to co-invest in a select few larger rapidly growing companies that have the potential to become Canadian tech champions

## **Provide increased assistance to women-owned firms:**

- committed \$700 million in term lending over three years. Since then, it has authorized \$549 million (as at December 31, 2016)
- announced significant investments to support women-led technology firms through direct and indirect VC
- exploring the development of a female angel investment education curriculum and encouraging women participation in BDC-supported accelerators
- testing a regional approach to co-finance women entrepreneurs
- supports programs, events and initiatives focused on women entrepreneurs

## **At the request of the government, explore options for strategies related to intellectual properties:**

- partnering with the Canadian Intellectual Property Office to train BDC client-facing personnel, disseminate relevant IP information on the BDC website and market existing BDC products to firms developing or exploiting IP



# BDC's contribution to Canada's Innovation Agenda

The government's Innovation Agenda requires sustained multifaceted efforts involving a broad coalition of national, regional and local players. This section showcases BDC's contribution to three areas of action: talent, emerging technology and science and growing companies, and clean growth.

## Talent: Attracting and developing highly skilled entrepreneurs and innovators

### What BDC does:

- helps underserved segments of entrepreneurs, such as youth, women, Indigenous, immigrant and social entrepreneurs
- supports the development of business and management skills through its advisory services and online educational content
- partners with numerous organizations—such as Communitech, Start-Up Canada and Futurpreneur Canada—to facilitate entrepreneurial initiatives in Canada
- celebrates and promotes entrepreneurship across Canada, notably with the annual BDC Small Business Week™

### What BDC will do:

- focus on social entrepreneurs and inform clients about the benefits of B Corp certifications
- provide additional support to women entrepreneurs and investors in technology by investing venture and growth capital in women-led tech firms, supporting regional initiatives to form a new women's pre-seed and seed VC fund, exploring the development of a female angel investment education curriculum and encouraging women participation in BDC-supported accelerators
- test a regional approach to co-finance women entrepreneurs
- investigate the issue of talent required to scale venture companies
- launch a training program to bolster Canadian fund manager capabilities
- develop a face-to-face learning program for high-impact firms to improve business-related capabilities

## Emerging technology and science: Grow world-leading superclusters that translate research and technology strengths into new commercial opportunities

### What BDC does:

- supports the innovation ecosystem with its extensive VC footprint (direct and indirect investments and ecosystem-building initiatives)
  - finances graduates from partner accelerators through the Venture Acceleration program
  - manages the Venture Capital Action Plan (VCAP) on behalf of the government
  - partners with key innovation hub actors, such as Canadian Technology Accelerators, to help SMEs go global
  - is testing market demand for a technology start-up loan in three innovation hubs
  - finances start-ups and growth-oriented firms in innovation clusters
  - provides customized loans to finance innovation projects for SMEs, including R&D
  - provides advisory solutions to help firms bring innovations to market
  - develops relationships and collaborates with regional development agencies and provincial organizations to grow world-leading superclusters
- 

### What BDC will do:

- focus on high potential firms' ability to scale up in innovation clusters via investments and non-investment activities through Strategic Initiatives and Partnerships

## Grow companies and accelerate clean growth: Growing the next generation of job-creating, global companies

### What BDC does:

- provides a full spectrum of growth capital from company creation, through all growth stages, to change of ownership
- supports the growth of innovative companies through its three direct VC funds: information and communication technologies; healthcare; and industrial, clean and energy technologies
- invests in seed- through late-stage VC funds
- nurtures strategic relationships with accelerators supporting cleantech start-ups and directly invests in some of their top graduates
- collaborates with Sustainable Development Technology Canada and EDC to provide a better coordinated and more streamlined approach to supporting the cleantech industry
- participates in syndicated transactions for renewable energy projects with cleantech components
- supports high-impact firms through its own tailored program (Growth Driver)
- plays a leadership role in the development and deployment of the Accelerated Growth Services initiative
- provides customized financing for innovative businesses operating in globally competitive areas such as the aerospace, automotive, technology, cleantech and fintech sectors
- provides advisory solutions to help SMEs drive growth, improve operational efficiency, adopt and leverage technology, build management skills, and expand globally

### What BDC will do:

- assess opportunities to expand the supply of growth capital by investing in mid-sized growth capital or private equity funds
- increase working capital support to cleantech firms
- identify opportunities to invest in new early- and late-stage private sector cleantech VC funds
- continue to co-invest in promising late-stage VC-backed Canadian technology firms
- continue enrolling firms in its Growth Driver program
- participate in international business forums and associations that directly improve SMEs' ability to export and invest abroad
- expand its portfolio of solutions to support international expansion, potentially including an e-commerce storefront solution, an export-readiness self-assessment tool, an international strategic planning solution and market-entry solutions for additional countries



# Index of partnerships

## National

Canada Company		BDC works with this charitable organization to promote BDC as an employment option for released Canadian Armed Forces members to help them transition to civilian employment.
Canadian Accelerators		BDC Capital has close ties with select accelerators across Canada to enable the growth of new Canadian technology start-ups. BDC Capital issues convertible notes to some of the graduates of 14 accelerators: HIGHLINE, FounderFuel, Propel ICT, Foresight, EcoFuel, Ryerson Futures/DMZ, Hacking Health Accelerator, Accel-Rx, Zone Startups, Communitel, Velocity, Creative Destruction Lab, InnoCité MTL, and NEXT Canada.
Canadian Bankers Association	CBA	BDC maintains a sound working relationship with the CBA, which contributes to the development of public policy on issues that affect financial institutions.
Canadian Technology Accelerators	CTAs	BDC Capital partnered with the CTAs in San Francisco, Boston and New York to support the growth and access to global markets of top Canadian high-growth, high technology start-ups.
Canadian Venture Capital and Private Equity Association	CVCA	BDC maintains a working relationship with the CVCA, which is a leading source of advocacy and professional development for VC and private equity professionals.
Centre for Business Innovation	CBI	Part of the Conference Board of Canada, the CBI conducts research on how Canadian companies incorporate innovation into their operations. BDC is a member of the CBI.
Cisco		Cisco has developed ICT courses for women entrepreneurs. BDC helps promote the courses and provides recommendations for women entrepreneurs for internships.
Community Futures Network of Canada	CFNC	Community Futures Development Corporations (CFDCs) and Sociétés d'aide au développement de la collectivité (SADCs) support community economic development. By working closely with CFDCs and SADCs across Canada, BDC reaches entrepreneurs in areas where it does not have a physical location.
Credit Union Central of Canada	CUCC	BDC maintains a working relationship with Canadian Central, the national forum for the Canadian credit union system. A liaison committee was formed to encourage complementarity and increase communication between senior leaders of BDC and the credit union system.
Economic Development and Trade Alberta, ATB Financial and Alberta Innovates Technology Futures (AITF)		BDC gets cross-referrals from all three parties. It shares risk with ATB, leverages AITF vouchers for advisory mandates, and leverages the expertise of the Alberta government.

## National

Export Development Canada	EDC	BDC and EDC share an important relationship, including a two-way referral system that ensures Canadian companies access the services of the organization whose competencies best meet their needs. A MOU between BDC and EDC was finalized in late 2011.
Federal Partners		Seven government agencies participate in the Accelerated Growth Service initiative to better serve growing SMEs.
Futurpreneur Canada		Futurpreneur Canada is a national, non-profit organization that supports business owners aged 18 to 39. Futurpreneur and BDC collaborate to offer financing to young entrepreneurs. BDC also offers a portfolio guarantee to Futurpreneur Canada.
Global Affairs Canada	GAC	In 2011, BDC signed an agreement with GAC to share business intelligence about global markets and collaborate on marketing. Seven GAC trade commissioners are co-located in BDC business centres across Canada. In addition, BDC Capital and GAC signed a strategic partnership in 2013 to support the expansion of the CTA program.
Global Commerce Centre	GCC	Part of the Conference Board of Canada, the GCC examines issues related to trade and international business. BDC is a member of the GCC.
Information and Communications Technology Council		BDC invested in the development of the Digital Adoption Compass, a website designed to help SMEs adopt technology.
Laurentian Bank		BDC extends a \$300 million portfolio guarantee to Laurentian Bank for commercial equipment financing.
National Angel Capital Organization	NACO	Under its key player development mandate, BDC Capital works with NACO to strengthen Canada's angel investing community, particularly in regard to angel professional development.
National Research Council of Canada	NRC	BDC works with NRC and NSERC to increase opportunities for joint funding, improve access to complementary federal funding, improve access to investment capital, and increase awareness of partnership opportunities and available funding programs.
National Research Council—Industrial Research Assistance Program	NRC-IRAP	BDC is a partner in NRC/IRAP's Concierge Service, which is a single access point to help entrepreneurs access support for growth.
Natural Sciences and Engineering Research Council of Canada	NSERC	BDC works with NRC and NSERC to increase opportunities for joint funding, improve access to complementary federal funding, improve access to investment capital, and increase awareness of partnership opportunities and available funding programs.
Startup Canada		BDC maintains a working relationship with Startup Canada to support the Canadian start-up community and sponsors and attends events across the country.
TAO Asset Management	TAO	BDC partners with TAO in the securitization market to deliver the Funding Platform for Independent Lenders.
TD Bank		TD Bank has a section on its intranet regarding collaboration and co-lending with BDC.



## B.C. and North

Chartered Professional Accountants Canada	CPA	CPA offers financial literacy courses for women entrepreneurs nationwide, in collaboration with BDC.
Entrepreneurs' Organization—Vancouver Chapter	EO	BDC is a strategic member of this group that caters to SMEs.
LNG-Buy BC		BDC shares Information with LNG-Buy BC and is working on a supplier development program for companies that will work with the new liquefied natural gas industry in B.C. BDC funding is available to partially cover the cost of mandates.
Northern Development Initiative Trust		BDC collaborates on the Northern Industry Expansion program, a loan guarantee program for approved clients in northern B.C.
Southern Interior Development Initiative Trust	SIDIT	SIDIT supports strategic investment in economic development projects in B.C. BDC is an alternative resource for funding and risk-sharing.
Western Economic Diversification	WINN	Western Economic Diversification refers non-successful applicants to WINN to BDC.
Whitehorse Chamber of Commerce		BDC participates in the chamber of commerce's HR Dynamics and Market Booster programs, and offers an advisory program rebate.

## Prairies

ATB Financial		BDC has a 50/50 co-lending partnership with ATB Financial.
BDO		BDO and BDC collaborate on advisory programs such as operational efficiency, marketing, web, and transition financing.
Chartered Professional Accountants Canada	CPA	CPA offers financial literacy courses for women entrepreneurs nationwide, in collaboration with BDC.
Manitoba Entrepreneurship, Training and Trade		BDC collaborates on the Manitoba Business Start program which offers a five-year, \$30,000 maximum term loan with an educational component. BDC provides the financing, while the Manitoba government guarantees it.
Petroleum Services Association of Canada	PSAC	BDC's relationship is designed to raise the profile of the petroleum services industry through joint events and information sharing.
Women's Enterprise Centre of Manitoba	WECM	WECM is accredited to authorize BDC loans of up to \$100,000. This partnership also offers opportunities for joint deals, advisory services referrals and -sharing.

## Ontario

ACCESS Employment		BDC collaborates with ACCESS Employment's Entrepreneurship Connection to provide immigrants with knowledge of the Canadian business environment and culture, as well as mentoring opportunities. The program is available in Toronto, Ottawa and Hamilton, and will soon be piloted in Vancouver.
Boone		In their pilot project, Boone created a special dedicated email address and contact setup as well as a link to BDC on their website for advisory services.
Communitech Hub		BDC supports this Ontario innovation hub through sponsorships. A dedicated BDC employee will also be located in Communitech's space to ensure BDC responds to the unique needs of this ecosystem.
Chartered Professional Accountants Canada	CPA	CPA offers financial literacy courses for women entrepreneurs nationwide, in collaboration with BDC.
Entrepreneurs' Organization	EO	BDC is a strategic member of this group that caters to SMEs.
MaRS Centre		BDC supports this Ontario innovation centre through sponsorships.
OG100		BDC participates in this private group of chief executive officers from Ontario, which supports the development of global leaders.
Ontario Centres of Excellence	OCE	OCE helps drive entrepreneurial growth in Ontario. BDC signed an MOU to assist OCE's clients through OCE's Voucher for Innovation and Productivity program.
Rise Asset Development		BDC has partnered with this institution to provide funding through the Rise mentorship and coaching program. BDC is supporting people with mental health challenges who are using entrepreneurial projects to succeed.

## Quebec

BDO		BDO and BDC collaborate on advisory programs such as operational efficiency, marketing, web, and transition financing.
<i>Centre de Robotique et de Vision Industrielles</i> and CNRC	CRVI	BDC and CNRC clients may be referred to the CRVI to benefit from their automation diagnostic. BDC may finance part of the mandate.
Microsoft		Through its relationship with this private organization, BDC aims to provide online financing to their network of 41 value-added resellers.
QG100		BDC participates in this private group of chief executive officers from Quebec, which supports the development of global leaders.
Réseau Capital		BDC contributes to Réseau Capital's thought leadership and research by serving on its board and various sub-committees, and by providing research assistance. BDC also participates in many events organized by Réseau Capital, often by providing a keynote speaker or panelist.

## Atlantic

Chartered Professional Accountants Canada	CPA	CPA offers financial literacy courses for women entrepreneurs nationwide, in collaboration with BDC.
Michelin Tire		Micheline Tire and BDC collaborate on an investment fund for local economic development. It is also supported by local CF and credit union.
Tourism Industry Association of P.E.I.	TIAPEI	BDC is engaged in ongoing discussions with TIAPEI on ways to work together and help their members succeed in the tourism industry. There is a BDC link on TIAPEI's website, but the rest of the strategy is still to be defined.

## International

Association of Development Financing Institutions in Asia and the Pacific	ADFIAP	BDC partners with associations around the world such as ADFIAP and ALIDE to gain insight into foreign markets and assist Canadian businesses with their global expansion plans.
Bpifrance		Bpifrance, provides financing for business development with a focus on SMEs and innovative enterprises. BDC and Bpifrance signed an MOU in March 2015 to share knowledge and best practices and to assist entrepreneurs in both countries with global expansion.
Latin American Association of Development Financing Institutions	ALIDE	BDC partners with associations around the world such as ADFIAP and ALIDE to gain insight into foreign markets and assist Canadian businesses with their global expansion plans.
The Montreal Group	TMG	Initiated by BDC, TMG is a global forum for state-supported financial development institutions that encourages an exchange of ideas and best practices with the aim of assisting micro-businesses and SMEs with their business challenges.



# Governance

The corporate plan is the centerpiece of the accountability process for Crown corporations adopted by the Parliament and is an important element of BDC's governance structure. As a federal Crown corporation, BDC also interacts regularly with government officials to ensure alignment with government priorities and to provide updates on BDC's work.

BDC uses its corporate plan to keep ministers and government officials abreast of and obtain approval for its activities.

Within the context of its incorporating and governing legislation, its approved corporate plans, and specific instructions that it may receive from the Government of Canada, BDC operates at arm's length from the government. It is ultimately accountable to Parliament through the Minister of Innovation, Science and Economic Development.

An independent Board of Directors, supported by various committees, ensures a high standard of corporate governance and ethical conduct. BDC's President and CEO sits on and reports to the Board.

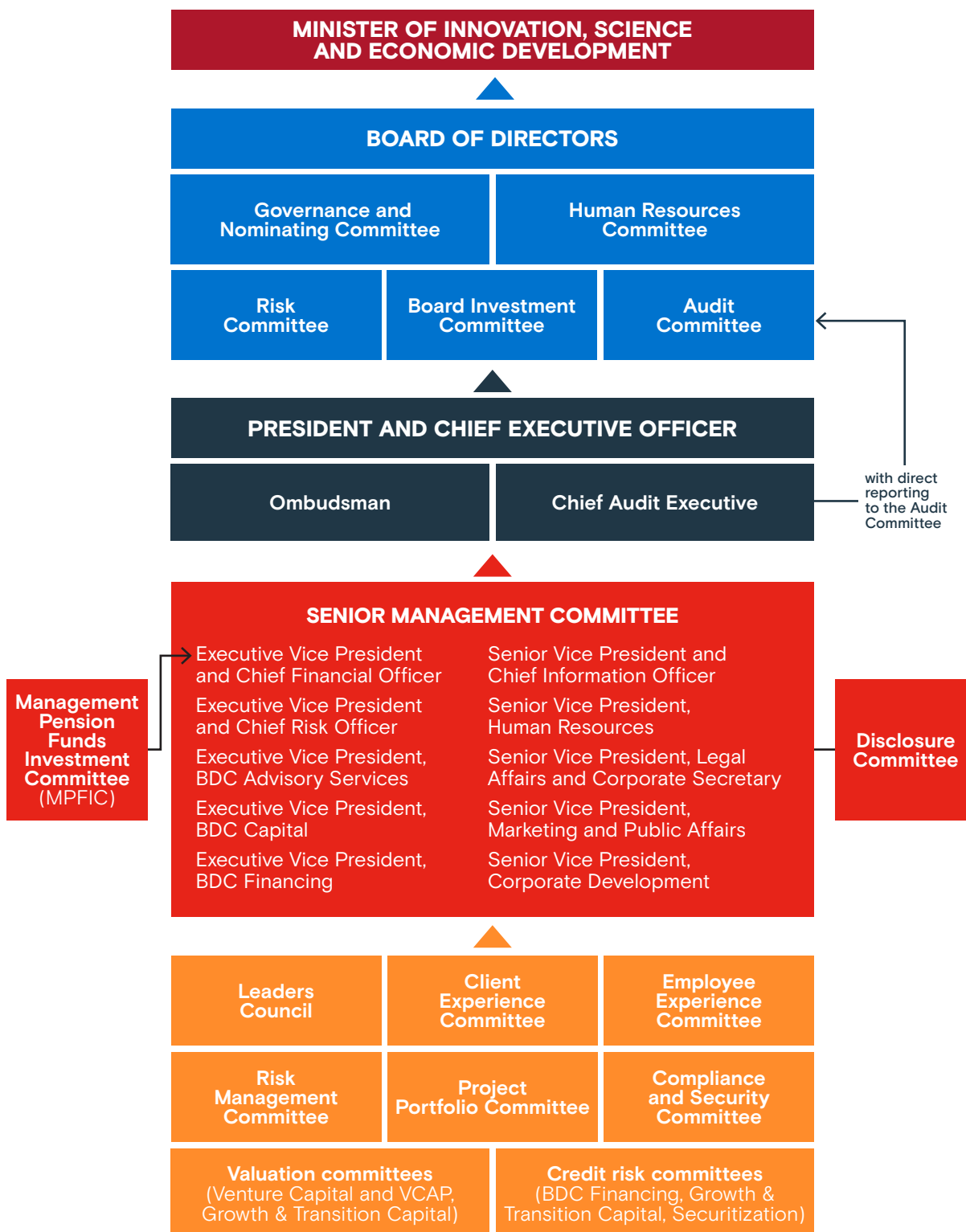
The Board is responsible for the following:

- approving BDC's strategic direction and corporate plan to meet its public policy mandate
- approving the Risk Appetite Framework, which includes the Risk Appetite Statement, to ensure that BDC is identifying and managing its risks properly
- approving the regulatory compliance framework and all policies
- approving succession planning, performance management and compensation for the senior management team
- setting the President and CEO's performance objectives, and evaluating his or her performance
- ensuring the highest standards of corporate governance and board effectiveness
- approving financial management, internal controls and management information systems
- overseeing the Disclosure Policy and public disclosure
- overseeing BDC's pension plans, and establishing its funding policies and practices
- approving financing and investment activities beyond management's authority, and overseeing financial and advisory services
- overseeing compliance with policies and the regulatory compliance framework

BDC's Senior Management Committee comprises the President and CEO, the executive financial and operating officers, and designated senior vice presidents. Its responsibilities include the following:

- setting, recommending to the Board for approval and implementing BDC's vision, corporate strategy, objectives and priorities
- establishing and monitoring compliance with the Risk Appetite Statement, and assessing the effectiveness of risk management functions
- monitoring material and strategic projects and investments
- overseeing BDC's disclosure obligations and practices

## BDC Governance Structure



## Board committees

### Audit Committee

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are as follows:

- recommending BDC's consolidated financial statements to the Board and reviewing the adequacy and effectiveness of the internal control framework, including controls related to major accounting and financial reporting systems
- overseeing the activities of the Internal Audit function and the Chief Audit Executive
- overseeing the activities of the Compliance function and the Chief Compliance Officer, including recommending the Regulatory Compliance Policy to the Board
- recommending the Capital Management Policy to the Board, including the process to identify, measure and report risks that should be quantified for capital purposes
- reviewing reports on capital adequacy, e.g., funding, material risks, allocation of capital, and the adequacy and effectiveness of internal controls for capital management and stress testing
- overseeing Internal Audit including approving the Internal Audit Plan and reviewing with the Chief Audit Executive the results of internal audit activities, control and risk management systems and compliance with same
- overseeing the work of the external auditors and special examiners
- overseeing BDC's standards of integrity and conduct, including compliance with laws and regulations, disclosure of wrongdoing and material violations of BDC's code of conduct and ethical standards

### Risk Committee

This committee oversees the risk management framework and important strategic initiatives and adjudicates transactions above the delegation of management. Its main duties are as follows:

- recommending the Risk Appetite Framework to the Board, as well as all strategies related to BDC's material financial offerings, other than investments
- approving the Risk Appetite Statement
- approving the framework for the assessment and approval of new products and services, including the monitoring, reporting and oversight requirements, other than for investments
- ensuring that BDC's material financial, business and operational risks are identified and that controls and processes are in place to manage them
- approving the mandate of the Chief Risk Officer (CRO)
- overseeing the role and performance of the CRO
- ensuring the effectiveness, resources and budget of the Risk Oversight function
- providing risk input into firm-wide compensation decisions
- recommending risk-related policies to the Board
- monitoring BDC's risk profile, stress testing processes, material risks related to BDC's business and operations, strategic and emerging risks and issues, and compliance with BDC's risk limits and policies
- approving the Delegation of Authority Policy
- approving transactions related to loans, guarantees and securitization transactions that exceed the delegation of authority of senior management

## Governance and Nominating Committee

This committee assists with the governance of the Board and its committees, and the oversight of the corporate governance framework. Its main duties are as follows:

- assisting the Board in fulfilling its corporate governance oversight, foresight and insight responsibilities and assessing risk associated with its corporate governance framework
- reviewing governance best practices and regulatory developments to ensure that high standards of corporate governance, ethical business conduct and a culture of integrity are maintained, including with respect to diversity
- reviewing the effectiveness of BDC's corporate governance and policies, including the Board Code of Conduct and the BDC Code of Conduct, Ethics and Values, and monitoring compliance with same
- monitoring procedures established to manage and resolve conflicts of interest
- reviewing the Board Profile and its committees' terms of reference, mandates, structure, composition and membership, and recommending changes to reflect best practices
- defining selection criteria for the President and CEO position in consultation with the Chairperson and the Minister of Innovation, Science and Economic Development
- advising the Minister of Innovation, Science and Economic Development on selection criteria for the Chairperson of the Board, and approving the Board Profile and required competencies, skills and experience
- through the Chairperson of the Board, participating in the Shareholder's process for selecting the Chairperson of the Board, the President and CEO, and board members, and assessing the performance and effectiveness of the Board and its committees
- implementing a director orientation program
- reviewing BDC's corporate governance framework and recommending to the Board its public disclosure

## Human Resources Committee

This committee helps the Board oversee the management of human capital to ensure that BDC attracts and retains the talent needed to deliver on its mandate and business objectives. Its main duties are as follows:

- overseeing succession planning for critical and key positions
- developing the Human Resources strategy including key HR objectives, plans and workforce requirements
- bringing the CEO's performance objectives to the Board for approval and apprising the CEO's performance against these objectives, in accordance with guidelines set by the Privy Council Office
- overseeing compensation policies, programs and plans
- overseeing policies for the sound management of BDC's personnel and maintenance of ethical standards
- overseeing pension plans and funds
- approving appointments of senior managers and major organizational changes
- assessing the "tone at the top" with respect to integrity and ethics
- assessing the risks to which the HR function is exposed (e.g., employee attraction, retention, engagement, performance, succession planning, talent management and any other risk related to human capital)
- regularly reviewing the investment policy, and other policies and processes for investment activities
- reviewing and assessing all risks associated with investments and their management
- reviewing all strategies, guardrails and capital allocations for all material investment activities, including VC and growth equity
- reviewing strategic initiatives aimed at improving the VC ecosystem
- monitoring portfolio performance
- reviewing and recommending delegations of authority for investments
- approving investment transactions that exceed management's or a fund's delegation of authority and recommending to the Board those that exceed its own authority

## Board Investment Committee

This committee helps the Board oversee all investment activities at BDC. Its duties are as follows:



# F Risk management

BDC assumes more risk to better support SMEs while remaining financially sustainable. A strong risk management framework and culture ensure that BDC can properly identify and monitor risks while delivering on its mandate. BDC manages risk through formal risk review processes, which include a board-approved Risk Appetite Statement, risk policies, and delegated authorities and limits.

## Enterprise-wide risk management framework

The Enterprise Risk Management Policy defines the roles and responsibilities of board members, management, functional units and employees. Included in the policy is BDC's governance framework, which consists of board and senior management committees that ensure risk management practices are systemically applied across the organization.

The Risk Appetite Statement enables BDC to articulate and monitor its risk profile against defined risk appetite limits, taking action as needed to maintain a balance of risk and return. The statement is based on qualitative and quantitative measures that demonstrate the board and management vision for managing the risks that BDC is willing to accept in executing its mandate.

To ensure appropriate risk management, BDC's Corporate Risk function consists of three key risk management units: Credit and Investment Risk Management (CIRM); Integrated Risk Management (IRM), which includes portfolio and treasury risk management; and Operational Risk Management (ORM).

The role of the CIRM, IRM, and ORM units are as follows:

- ensure that BDC applies sound risk management principles, appropriate policies and corporate directives to manage

significant and emerging risks, according to risk thresholds outlined in the Risk Appetite Statement

- develop tools to measure, analyze and report on these risks
- provide timely reporting on these risks to the organization's risk management committees, the Senior Management Committee and the Board

## Enterprise-wide risk management process

BDC's enterprise-wide risk management framework codifies the integrated process that BDC uses to identify, analyze, accept, mitigate and monitor risks, coupled with defined reporting requirements. BDC categorizes risks into the following five main types:

- business and strategic
- credit (BDC Financing) and investment (VC, Growth & Transition Capital)
- market
- liquidity
- operational

Emanating from and affected by all of these risk types are reputational risk and capital adequacy risk.

## Identify

Every quarter, risks at the corporate and functional levels are identified, assessed, documented and classified. They are then presented to the Risk Management Committee, the Senior Management Committee and the Board for discussion. Risks related to all significant projects, new products or services, and policy changes are also assessed and discussed.



## Monitor, disclose and report

BDC monitors activities affecting its risk profile, material risk exposures and loss events, and acts to align risk exposures with risk appetites.

Risk process owners monitor, disclose and report risks, with support and oversight from the Risk Management Committee and risk management functions. They prepare the Integrated Risk Management Report on all significant risks, updated quarterly, and they meet through risk management and board committees to report and discuss the risks they manage.

## Analyze and measure

The risks posed by BDC's activities are quantified and qualitatively assessed. BDC updates related tools and models, taking into consideration best practices in the financial services industry. Risks across the organization are measured to ensure they reflect BDC's policies, corporate directives, standards and tolerance limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance.

## Define risk appetite

BDC's Risk Appetite Statement outlines the board and management vision for managing significant risks that BDC is willing to accept or wants to avoid in executing its strategy. BDC communicates the risks via qualitative statements and quantitative measures.

## Control and mitigate

BDC sets risk tolerance thresholds to reflect its objectives and strategies. BDC also uses policies and guidelines to codify its governance and risk management culture. BDC uses the following elements to mitigate risks:

- adequate and clear roles, responsibilities, processes, policies, corporate directives and procedures
- risk management functions and committees that provide oversight and monitoring
- risk mitigation activities, such as hedging, insurance risk management, business continuity planning, information technology recovery planning, and anti-fraud and anti-money laundering programs
- quality reviews and audits to ensure that BDC is using appropriate and sound risk management practices (every quarter, the Internal Audit Department presents the results of the audits to the Audit Committee)

## Response to Office of the Superintendent of Financial Institutions' recommendations

As part of an effort to monitor evolving financial risks to which the government may be exposed and to ascertain whether those risks are adequately managed, the Office of the Superintendent of Financial Institutions (OSFI) recently reviewed BDC's risk management and governance practices.

In general, OSFI's report acknowledged that BDC's practices are continuously evolving and that BDC has enhanced its enterprise-wide risk management framework numerous times over the years. It also provided guidance on areas for improvement. In response, BDC agreed with the recommendations as a means to continue enhancing its risk management practices and immediately defined a three-year action plan for its risk management vision. This action plan comprises an extensive project list and detailed timetable.

A program management governance structure allows BDC to provide quarterly status reports to the Board and Shareholder on the implementation of the action plan. BDC has already successfully implemented several of OSFI's recommendations.

BDC will continue to improve its enterprise-wide risk management framework to ensure that it remains aligned with evolving risk management practices, while continuing to deliver on its core mandate.

# Financial plan

This section presents the financial plan by business line, followed by consolidated financial results.

The financial plan is based on the economic observations and assumptions presented in Operating environment (Chapter 1).

## BDC Financing

BDC Financing helps improve SME competitiveness by meeting the financing needs of underserved entrepreneurs. In past years, BDC Financing and Securitization were presented as separate segments. Starting in fiscal 2018, BDC will no longer report on Securitization separately and asset-backed securities are presented as a product of BDC Financing.

BDC Financing provides term lending to SMEs from the start-up stage and throughout their business journey. BDC also collaborates with other financial institutions to increase credit availability in the market through co-lending and syndicated loans. In fiscal 2016, BDC offered portfolio guarantees to Laurentian Bank and Futurpreneur Canada to lower participating banks' risk exposure in SME lending. BDC continues to partner with TAO Asset Management to offer asset-backed securities through the Funding Platform for Independent Lenders (F-Pil) to ensure that smaller financing companies remain active in the market and able to provide financing for the vehicle and equipment needs of businesses consumers, ultimately helping SMEs improve their productivity.

BDC Financing's activity level is expected to lead to a 4% growth in the number of acceptances, from 15,300 in fiscal 2017 to 15,900 in fiscal 2018 (table 1), mainly due to:

- **BDC's increased presence across Canada**—Since fiscal 2015, BDC has deployed an initiative to increase its reach, especially in Western Canada and Ontario where its geographic presence should be better aligned with market realities. BDC is on track to meet its objectives and by fiscal 2018, will have eight new business centres, 18 new shared offices, 24 relocated business centres and 149 new employees to staff these locations. In fiscal 2017, BDC also introduced a new brand identity and will continue to invest in its overall visibility through advertising, including a significant online presence, to continue raising awareness of its offering and increase access to financing for SMEs.

**Table 1: BDC Financing — Net planned acceptances**  
in number of loans

	2016	2017	2018
CP 2017-18 to 21-22	14,437	15,300	15,900

- **Increase in the ease, speed and convenience of doing business with BDC**—To address entrepreneurs' evolving expectations, BDC will continue to innovate to make it easier for SMEs to benefit from its services. It is adapting its offering and delivery channels to meet the needs of firms of different size and complexity, streamlining its processes for its online channel, automating processes for all types of loans and deploying a mobility strategy enabling better connectivity with clients.
- **Continued support for SMEs affected by the drop in the price of oil**—BDC has committed an additional \$350 million to help a greater number of firms (page 37).

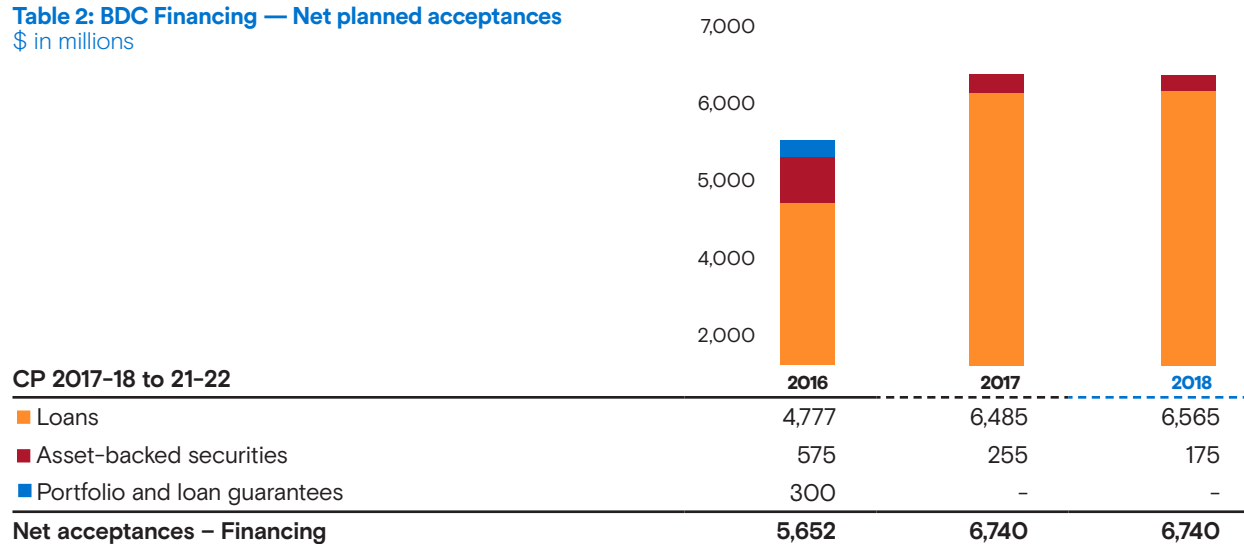
As shown in table 2, loan acceptances in dollars are expected to reach \$6.5 billion in fiscal 2017, \$1.7 billion higher than in fiscal 2016. This growth is mainly attributable to an increase in the median loan size driven

by BDC's efforts to help firms scale, support for the oil and gas sector which led to large syndication deals in this sector, and increasing cost of business assets such as machinery, equipment and commercial real estate.

Table 2 also shows that BDC is not expecting additional demand for portfolio or loan guarantees in fiscal 2018. As for asset-backed securities acceptances, they fluctuate and are difficult to forecast as they involve fewer deals for larger amounts. They are based on a three-year commitment, which explains their growth pattern.

Total dollars accepted are expected to remain stable in fiscal 2018 at \$6.7 billion, as BDC plays its development role and responds to market demand. BDC is in a better position to address this demand following recent and planned investments to increase its presence, visibility and digital capabilities.

**Table 2: BDC Financing — Net planned acceptances**  
\$ in millions



CP 2017-18 to 21-22

Loans

Asset-backed securities

Portfolio and loan guarantees

**Net acceptances – Financing**

As shown in table 3, BDC Financing's portfolio is forecasted to grow from \$23.0 billion in fiscal 2017 to \$25.3 billion in fiscal 2018.

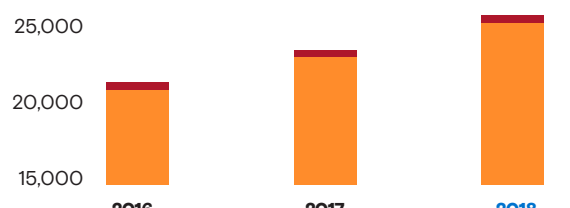
As shown in table 4, BDC Financing incurred increased operating expenses related to initiatives such as its efforts to improve reach and visibility, client experience through investments in processes and technology, as well as enhancements to its Enterprise-wide risk management framework following recommendations from OSFI, bringing BDC Financing's efficiency ratio to 39.5% in fiscal 2017. As BDC profits from efficiency gains due to the aforementioned investments, BDC Financing's efficiency ratio is expected to improve, reaching 37.8% in fiscal 2018 (a lower

ratio reflects increased efficiency). This means that BDC Financing will incur 37.8 cents of expense to earn one dollar of revenue.

Efficiency gains are also reflected in decreasing operating expenses as a percentage of the average portfolio outstanding, from 1.9% in fiscal 2017 to 1.8% in fiscal 2018 (table 5).

Table 5 also shows that the credit quality of BDC Financing's portfolio is expected to remain somewhat stable with a provision for credit losses as a percentage of the average portfolio outstanding of 0.8% in fiscal 2017 and 0.7% in fiscal 2018. Net income is expected to increase from \$444 million in fiscal 2017 to \$517 million in fiscal 2018.

**Table 3: BDC Financing — Portfolio outstanding**  
\$ in millions



	2016	2017	2018
Loans	20,368	22,502	24,761
Asset-backed securities	509	517	550
<b>Portfolio outstanding</b>	<b>20,877</b>	<b>23,019</b>	<b>25,311</b>

**Table 4: BDC Financing efficiency ratio**

	2016	2017	2018
CP 2017-18 to 21-22	38.3%	39.5%	37.8%

**Table 5: BDC Financing — Statement of income**

\$ in millions

	2016	2017	2018
Interest income	1,030	1,087	1,189
Interest expense	71	79	94
<b>Net interest income</b>	<b>959</b>	<b>1,008</b>	<b>1,095</b>
Fee and other income	17	22	21
Net realized gains (losses) on other financial instruments	1	2	-
<b>Net revenue</b>	<b>977</b>	<b>1,032</b>	<b>1,116</b>
Provision for credit losses	(161)	(176)	(176)
Net unrealized gains (losses) on other financial instruments	3	(4)	(1)
<b>Income before operating and administrative expenses</b>	<b>819</b>	<b>852</b>	<b>939</b>
Operating and administrative expenses	374	408	422
<b>Net income</b>	<b>445</b>	<b>444</b>	<b>517</b>
<b>As a % of average outstanding</b>			
Net interest income	4.8	4.6	4.5
Fee and other income	0.1	0.1	0.1
<b>Net revenue</b>	<b>4.9</b>	<b>4.7</b>	<b>4.6</b>
Provision for credit losses	(0.8)	(0.8)	(0.7)
<b>Income before operating and administrative expenses</b>	<b>4.1</b>	<b>3.9</b>	<b>3.9</b>
Operating and administrative expenses	1.9	1.9	1.8
<b>Net income</b>	<b>2.2</b>	<b>2.0</b>	<b>2.1</b>
<b>Average portfolio outstanding (\$ in millions)</b>	<b>20,111</b>	<b>21,992</b>	<b>24,107</b>



## Growth & Transition Capital

Growth & Transition Capital caters to growing businesses, especially high-growth firms with strong management, but that often have limited tangible assets to offer as collateral. BDC offers higher-risk solutions (cash flow, mezzanine, quasi-equity) to allow entrepreneurs to execute on their growth and succession plans while limiting their ownership dilution. BDC also offers minority growth equity in cases where entrepreneurs require capital to rapidly accelerate the growth trajectory of their business.

Growth & Transition Capital experienced unexpected demand and a greater average loan size in fiscal 2017 and expects demand to remain strong in fiscal 2018. Acceptances are forecasted to grow from \$325 million in fiscal 2017 to \$340 million in fiscal 2018 (table 6), resulting in a portfolio at fair value of \$991 million fiscal 2018 (table 7).

As shown in table 8, net income is expected to remain relatively stable in fiscal 2018.

The increase in operating expenses from fiscal 2017 to 2018 is mainly due to a revised methodology to re-charge shared corporate services to business lines. However, operating and administrative expenses as a percentage of the average portfolio outstanding should remain stable at 4% due to efficiency gains.

Growth & Transition Capital is expected to remain an important contributor to BDC's financial sustainability, with a net income of \$53 million in fiscal 2018.

**Table 6: Growth & Transition Capital — Net planned acceptances**

\$ in millions

	2016	2017	2018
CP 2017-18 to 21-22	259	325	340

**Table 7: Growth & Transition Capital — Portfolio at fair value**

\$ in millions

	2016	2017	2018
CP 2017-18 to 21-22	751	853	991

**Table 8: Growth & Transition Capital — Statement of income**  
\$ in millions

	2016	2017	2018
<b>Net interest income</b>	<b>58</b>	<b>71</b>	<b>80</b>
Net realized gains (losses) on investments and write-offs	0	(2)	(18)
Fee and other income	27	28	29
<b>Net revenue</b>	<b>85</b>	<b>97</b>	<b>91</b>
Net fair value change	1	(15)	(20)
Fair value adjustments due to realized gains (losses) and write-offs	(1)	3	20
<b>Income before operating and administrative expenses</b>	<b>86</b>	<b>85</b>	<b>91</b>
Operating and administrative expenses	32	33	38
<b>Net income</b>	<b>54</b>	<b>52</b>	<b>53</b>
<b>As a % of average outstanding</b>			
<b>Net interest income</b>	<b>8.5</b>	<b>8.6</b>	<b>8.5</b>
Net realized gains (losses) on investments and write-offs	0.1	(0.2)	(1.9)
Fee and other income	3.9	3.4	3.1
<b>Net revenue</b>	<b>12.5</b>	<b>11.8</b>	<b>9.7</b>
Net fair value change	0.2	(1.8)	(2.1)
Fair value adjustments due to realized gains (losses) and write-offs	(0.1)	0.4	2.1
<b>Income before operating and administrative expenses</b>	<b>12.6</b>	<b>10.4</b>	<b>9.7</b>
Operating and administrative expenses	4.7	4.0	4.0
<b>Net income</b>	<b>7.9</b>	<b>6.4</b>	<b>5.7</b>

## Venture Capital (VC)

A healthy and vibrant VC ecosystem is important to foster innovation in Canada. BDC plays an important role by helping Canadian innovators launch and grow technology-focused businesses, commercialize innovation and build the skills of VC fund managers. It backs approximately 600 companies through direct investments in new businesses and indirect investments in partnering accelerators and VC funds. BDC's VC strategy to make Canadian VC a financially viable and attractive asset class for private sector investors has helped propel the market. Since 2010, the number of venture VC deals in Canada has increased by 38%, with total dollars invested increasing by 97%.

## Direct investments

With its direct VC investing strategy, BDC manages three investment funds which operate on the same principles as private sector funds, in the areas of information technologies (IT), industrial/clean/energy technology (ICE) and healthcare. In response to market demand, BDC allocated \$150 million to create a second IT fund in fiscal 2016 and \$135 million to create a second ICE fund in fiscal 2017. A second Healthcare fund is also being considered.

Through Strategic Initiatives and Partnerships (SIP), BDC develops innovative initiatives to reinforce the early-stage innovation ecosystem and addresses the funding gap by making initial seed investments in promising graduates of its accelerator partners through the Venture Acceleration program (formerly known as the convertible notes program).

In fiscal 2017, BDC announced that it is increasing its support to women-led technology firms by creating a new direct investing initiative, allocating capital to invest in both existing and new clients as well as graduates of BDC's partner accelerators through SIP.

BDC continues to roll out its Co-investment initiative to invest in companies alongside its indirect fund partners. This approach addresses the need for increased funding for Canadian companies in emerging sectors and later stages of growth to help them reach scale. BDC also plans to co-invest in a select few larger and rapidly growing technology companies that have the potential to become Canadian tech champions.

BDC also has direct investments via the Diversified Portfolio and Go Capital funds, whose main objectives are to maximize the proceeds of their maturing investments. They no longer invest in new companies but will do follow-up investing in their existing portfolios.

## Indirect investments

BDC's indirect VC—or Fund of Funds—approach is focused on building and supporting at-scale, world-class Canadian VC funds. These activities also include indirect investments in emerging fund managers formerly made under SIP and those made under the Venture Capital Strategic Investment Plan (VCSIP).<sup>\*</sup> BDC has invested in over 50 private sector funds that have a clear sector focus and recognized expertise.

As part of its focus on women-led tech firms, BDC also announced a \$10 million investment to support regional initiatives, beginning with the MaRS Investment Accelerator Fund to form a new women's pre-seed and seed fund.

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<sup>\*</sup> At the request of the government, BDC invested \$100 million of its own capital in VCSIP to help fill the financing gap for early stage investments.

As shown in table 9, VC's total authorizations are expected to remain stable at \$215 million in fiscal 2018.

**Table 9: Venture Capital — Authorizations forecasts by sector**  
\$ in millions

	2016	2017	2018
IT	59	56	29
Healthcare	43	28	22
Industrial, clean and energy technology	20	17	21
Women in Tech	–	–	10
Co-investment / Ascend	5	3	20
Diversified / Go Capital	12	3	2
SIP (incl. Women Venture Acceleration Program)	9	8	11
<b>Direct investments</b>	<b>148</b>	<b>115</b>	<b>115</b>
Fund of Funds	105	95	95
Women in Tech	–	5	5
<b>Indirect investments</b>	<b>105</b>	<b>100</b>	<b>100</b>
<b>Total authorizations</b>	<b>253</b>	<b>215</b>	<b>215</b>

As shown in table 10, VC proceeds are expected to increase to \$120 million in fiscal 2018, while disbursements should amount to \$186 million.

**Table 10: Venture Capital — Disbursements and proceeds**  
\$ in millions

	2016	2017	2018
Proceeds	103	91	120
Disbursements (excluding operating and administrative expenses)	(269)	(173)	(186)
	<b>(166)</b>	<b>(82)</b>	<b>(66)</b>

As disbursements are expected to remain higher than proceeds, the VC portfolio fair value is expected to increase, in line with last year's forecast, from \$1.0 billion in fiscal 2017 to \$1.1 billion in fiscal 2018 (table 11).

**Table 11: Venture Capital — Portfolio at fair value**  
\$ in millions

	2016	2017	2018
Portfolio at fair value	928	990	1,071

As shown in table 12, write-offs, fair value depreciation and an increase in operating and administrative expenses are expected to generate a loss in fiscal 2018. It should be noted that the increase in the latter is mainly due to a revised methodology to re-charge shared corporate services to business lines.

While BDC is optimistic about the direction of its strategy, VC is a risky asset class that is subject to volatility of market conditions.

**Table 12: Venture Capital — Statement of income**  
\$ in millions

	2016	2017	2018
Net realized gains (losses) on investments	30	19	39
Write-offs	(37)	(13)	(19)
<b>Net realized gains (losses) on investments and write-offs</b>	<b>(7)</b>	<b>6</b>	<b>20</b>
Fee and other income	5	2	–
<b>Net revenue (loss)</b>	<b>(2)</b>	<b>8</b>	<b>20</b>
Net fair value change	68	(23)	(4)
Fair value adjustment due to realized gains (losses) and write-offs	14	3	(1)
Net unrealized foreign exchange gains (losses) on investments	8	14	–
<b>Income before operating and administrative expenses</b>	<b>88</b>	<b>2</b>	<b>15</b>
Operating and administrative expenses	20	22	25
<b>Net income (loss)</b>	<b>68</b>	<b>(20)</b>	<b>(10)</b>

## BDC Advisory Services

BDC Advisory Services (previously known as BDC Advantage) encompasses BDC's non-financial services under one business line. With its suite of high-quality advisory solutions, offering for high-impact firms, online educative content and solutions to help SMEs globalize, BDC invests in helping Canadian businesses be more competitive by taking on a significant portion of the costs associated with these activities to ensure that firms can reap maximum benefits.

In recent years, BDC Advisory Services developed over 25 high-quality solutions to help entrepreneurs address challenges in the areas of growth, productivity and managerial capabilities. It also tailored its approach to better cater to the unique needs of both smaller and larger SMEs,\* while refining the way it delivers projects.

BDC Advisory Services will continue to deploy the Growth Driver program (previously known as High-impact firm initiative) to serve companies that have a disproportionate impact on the economy. The program, delivered by highly experienced executive advisors supported by a team of experts and analysts, focuses on supporting entrepreneurs and management teams in the development and execution of a growth plan to ensure that high-impact firms reach their full potential.

BDC Advisory Services will also continue to collaborate with EDC while adding to its portfolio of solutions to support firms looking to expand abroad.

Table 13 shows that BDC Advisory Services revenues are expected to increase from \$20 million in fiscal 2017 to \$26 million in fiscal 2018. This is mainly driven by the increased enrolment pace in the Growth Driver program and the adoption of a more tailored approach to offer advisory mandates for both smaller and larger firms. The increase in operating expenses from fiscal 2017 to fiscal 2018 is partly due to a revised methodology to re-charge shared corporate services to business lines.

The offering under BDC Advisory Services is considered an investment in entrepreneurs. A net loss of \$54 million is forecasted in fiscal 2018.

The cost-recovery ratio is expected to improve from 36% in fiscal 2017 to 41% in fiscal 2018, reflecting a continued focus on controlling expenses and increased efficiency as BDC Advisory Services continues to reap the benefits of synergies amongst its different offerings (table 14).

**Table 13: BDC Advisory Services — Statement of income**

\$ in millions

	2016	2017	2018
Revenue from activities	17	20	26
Operating and administrative expenses including delivery and transition costs	48	69	80
<b>Net income (loss)</b>	<b>(32)</b>	<b>(49)</b>	<b>(54)</b>

**Table 14: BDC Advisory Services — Cost recovery ratio**

Excludes transition, implementation costs and corporate allocation

	2016	2017	2018
CP 2017-18 to 21-22	42%	36%	41%

\* Smaller businesses < \$2 million in revenues > larger businesses.

## Venture Capital Action Plan (VCAP)

BDC is playing a leadership role in strengthening the Canadian VC ecosystem. Recognizing the importance of VC to Canada's economic prosperity, the government asked BDC to manage the Venture Capital Action Plan (VCAP) to help increase available capital for promising innovative Canadian start-ups and create a vibrant and sustainable VC ecosystem in Canada led by the private sector. BDC's role was to provide advice and analysis to support the government's design of VCAP; to negotiate and make investments as the government's agent; to administer the flow of capital; and to monitor the initiative for the government.

Through VCAP, the government committed \$340 million to four private sector Funds of Funds and \$50 million to four high-performing VC funds. This capital was used to leverage over \$900 million in private sector capital and \$113 million from provincial governments, bringing the total venture capital raised under VCAP to \$1.4 billion. As at September 30, 2016, 21 Canadian VC funds had received funds. The last annual data available (March 2016) shows that in total, investments under VCAP resulted in \$453 million being committed to 126 Canadian companies, with more expected in the coming years.

VCAP Funds of Funds will continue disbursements in fiscal 2018. In order to fund upcoming disbursements, BDC expects an additional capital injection of \$64.5 million in fiscal 2018. BDC already received capital injections totalling \$325 million from fiscal 2014 to fiscal 2017.

As shown in table 15, BDC expects to incur a net loss of \$21 million in fiscal 2018. The bulk of proceeds from VCAP are expected outside of the five-year planning period.

In its 2016 report on VCAP, the Auditor General found that the Government of Canada, was "successful in reaching its identified short-term goals" namely of establishing four large privately managed funds of funds, and investing \$50 million in at least three privately-managed high-performing VC funds. BDC's role in advising on VCAP's design, and negotiating investments as the government's agent contributed to this success.

The Auditor General also recommended that the government report more information on the initiative to the public. In line with the government's response to this recommendation, as part its role in monitoring VCAP, BDC will collaborate with Innovation, Science and Economic Development Canada to publish, on an annual basis, aggregated performance information on the VCAP portfolio. The first annual report will be published by May 31, 2017, covering the year 2016.

**Table 15: VCAP — Activity and statement of income**  
\$ in millions

	2016	2017	2018
<b>Authorizations</b>	65	—	—
<b>Disbursements</b>	86	146	85
<b>Proceeds</b>	—	—	—
<b>Portfolio at fair value</b>	138	268	333
Net revenue	—	—	—
Fair value change	4	(15)	(20)
<b>Income before operating and administrative expenses</b>	4	(15)	(20)
Operating and administrative expenses	1	1	1
<b>Net income (loss)</b>	3	(16)	(21)



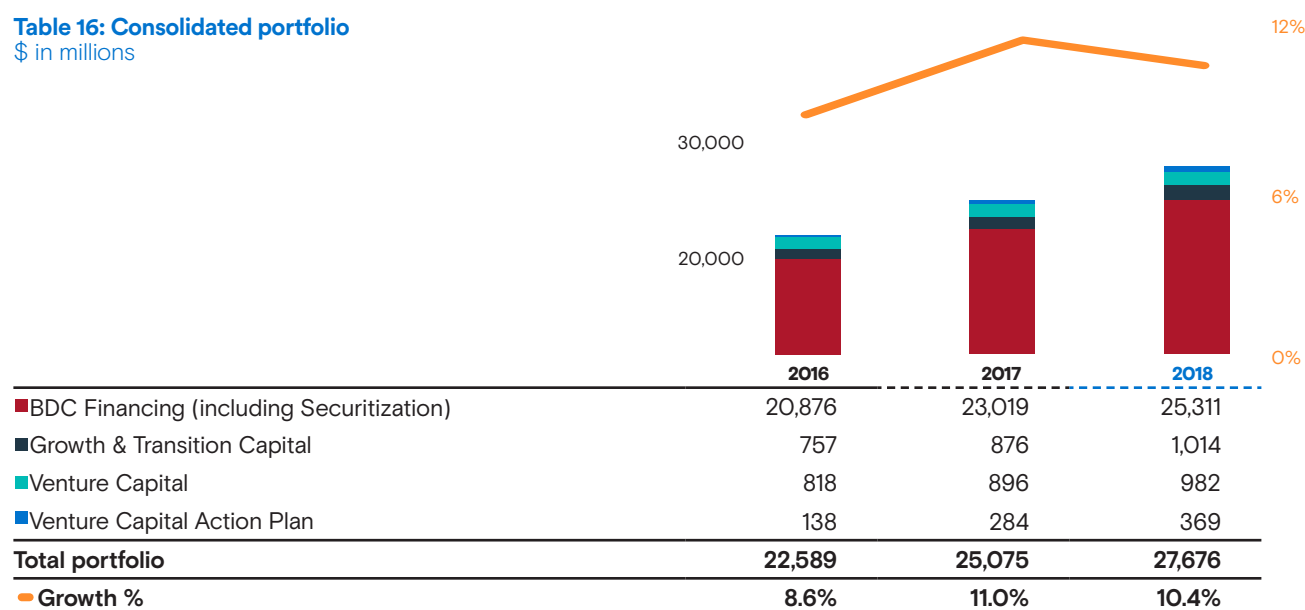
## Consolidated financial results and key financial indicators

### Consolidated portfolio and net income

Table 16 shows the composition and growth of BDC's consolidated outstanding portfolio in dollars. The portfolio growth is driven by increased demand due to BDC's initiatives to increase its reach and visibility across Canada and to increase the ease, speed and convenience of doing business with BDC. In addition, a higher median loan size attributable to BDC's efforts to scale firms, support for the oil and gas sector and increasing cost of business assets impacts portfolio growth in fiscal 2018.

BDC's consolidated net income, shown in table 17, is expected to remain at a financially sustainable level, reaching \$485 million in fiscal 2018. Efficiency gains from investments in processes and technology are expected to contribute to increased profitability.

**Table 16: Consolidated portfolio**  
\$ in millions



**Table 17: Consolidated net income**  
\$ in millions

	2016	2017	2018
BDC Financing	445	444	517
Growth & Transition Capital	54	52	53
Venture Capital	68	(20)	(10)
BDC Advisory Services	(32)	(49)	(54)
VCAP	3	(16)	(21)
<b>Net income</b>	<b>538</b>	<b>411</b>	<b>485</b>

## Consolidated operating and administrative expenses and capital budget

### Operating and administrative expenses

BDC continues to make concerted efforts to control operating and administrative expenses which will grow at a slower pace (table 18) than BDC's consolidated portfolio in fiscal 2018 (table 16). BDC will adopt in fiscal 2018

a refined methodology to re-charge shared corporate services to the business lines, which mainly explains the difference between business lines' fiscal 2017 and 2018 results.

**Table 18: Operating and administrative expenses**

\$ in millions

	2016	2017	2018
BDC Financing	374	408	422
Growth & Transition Capital	32	33	38
Venture Capital	20	22	25
BDC Advisory Services	48	69	80
Venture Capital Action Plan	1	1	1
<b>Total operating budget</b>	<b>475</b>	<b>533</b>	<b>566</b>
<b>Growth %</b>	<b>8%</b>	<b>12%</b>	<b>6%</b>

### Capital budget

In an effort to remain efficient and responsive to client needs, BDC invests in technology and in its business facilities across Canada.

As shown in table 19, facilities expenditures are expected to increase in fiscal 2018 due to leasehold improvements to optimize space usage and improve collaboration, following the renewal of the lease for BDC's Montreal head office and business centre.

Capital expenditures in information technology will increase in fiscal 2018, reflecting BDC's efforts to adapt its way of doing business to make it easier for SMEs to benefit from its services. BDC will invest in mobility tools and automation to improve client experience and BDC's efficiency.

**Table 19: Capital budget**

\$ in millions

	2016	2017	2018
Facilities	6	9	23
Information technology	2	8	23
<b>Total</b>	<b>8</b>	<b>17</b>	<b>46</b>

## Key financial indicators

As part of requirements of the new Capital and Dividend Policy Framework for Financial Crown Corporations, table 20 presents financial indicators to measure BDC's financial sustainability and capital adequacy.

### Annual return on equity\*

The annual return on equity measures the efficiency in generating income relative to equity. BDC compares its annual return on equity against its historical and projected financial performance and ensures that financial sustainability objectives are met.

BDC's annual return on equity is projected at 7.2% in fiscal 2017. It is lower than the previous year as BDC continues to invest to increase its reach and visibility, deploy the Growth Driver program, support firms affected by the price of oil and invest in technology and processes. The annual return on equity is expected to increase to 7.6% in 2018, aligned with the expected increase in net income (table 18).

### 10-year moving average return on equity

The 10-year moving average return on equity is expected to decrease slightly to 9.0%.

### BDC Financing efficiency ratio\*\*

Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities.

In fiscal 2017, BDC expects BDC Financing's efficiency ratio to be 39.5%, reflecting investments related to initiatives such as its efforts to improve reach and visibility, client experience through better processes and technology, as well as enhancements to its Enterprise-wide risk management framework following recommendations from OSFI.

As BDC profits from efficiency gains from the aforementioned investments, BDC Financing's efficiency ratio should improve from 39.5% in fiscal 2017 to 37.8% in fiscal 2018. This means that BDC Financing will incur 37.8 cents of expense to earn one dollar of revenue.

### Internal capital ratio

BDC assess the adequacy of its capital status with its internal capital ratio, expressed as the level of available capital over the economic capital required. The internal capital ratio is expected to reach 126% in fiscal 2018, which is within the operating range (table 21, page 80).

**Table 20: Key Financial Indicators**

	2016	2017	2018
Return on equity – Annual*	10.3%	7.2%	7.6%
Return on equity – 10 year moving average	9.3%	9.1%	9.0%
BDC Financing efficiency ratio**	38.3%	39.5%	37.8%
Internal capital ratio	130%	127%	126%

\* Return on equity is net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss and non-controlling interest.

\*\* BDC Financing's efficiency ratio is a measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. Other income includes fee income and net realized gains or losses on other financial instruments.

# Capital plan

2017-18 to 2021-22

BDC's capital management framework is aligned with:

- BDC's strategy, Risk Appetite Statement and Enterprise Risk Management Policy
- relevant industry practices and OSFI guidelines, while accounting for factors unique to BDC's mandate as a financial Crown corporation

As per the new Capital and Dividend Policy Framework for Financial Crown Corporations, BDC is expecting to be relieved from its Treasury Board capital requirements issued in 1996 (appendix I).

## Capital management framework

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP), which is aligned with OSFI's guidelines and the new Capital and Dividend Policy Framework for Financial Crown Corporations. BDC's ICAAP excludes the Venture Capital Action Plan (VCAP) as this program is managed by BDC under a specific capital allocation from the Shareholder.

The key principles behind BDC's capital management framework are that:

- BDC has adequate capital to protect against risks that could adversely impact its ability to deliver on its mandate and minimize the risk of recapitalization through a complete economic cycle.
- Capital in excess of target capital should be returned to the Shareholder in the form of dividends.

The concept that capital has a cost is also embedded in the framework and related policies. It is ensured through strategic and efficient capital allocation to business segments, pricing models based on return on risk adjusted capital (RORAC) and assessment of financial performance against expected historical ranges and limits, as set out in BDC's Risk Appetite Statement.

For the purpose of assessing its capital adequacy, BDC monitors its **capital status** on an ongoing basis by comparing its **available capital** to its **capital demand**. In fiscal 2017, BDC introduced an **operating range** to better absorb unforeseen capital movements without requiring capital injections from the Shareholder and allowing **excess capital** to be paid as dividends the following year. A key measure to assess capital status adequacy is BDC's **internal capital ratio**.

## Available capital

Available capital is composed of equity attributable to BDC's Shareholder (retained earnings and capital injections) and adjustments aligned with industry practices. These adjustments have been refined in fiscal 2017 to reflect Basel III requirements. As a result, intangible assets are now deducted from available capital and only a portion of the allowance for credit losses is considered.

## Capital demand

Capital demand is the capital needed to support the risk profile of BDC's activities and includes the following elements:

### Economic capital required

BDC employs rigorous models to assess demand for capital arising from credit and operational risks and from business, pension plan and interest rate risks. Models are based on advanced quantification methods and internal risk-based assumptions. They consider both disbursed and undisbursed commitments. A key principle behind the economic capital models is the establishment of a solvency rating that is set at a credit rating of A.

### Stress testing capital reserve

BDC conducts annual enterprise-wide stress tests on its significant risks and portfolios to determine an appropriate level of capital to withstand a sustained economic downturn and fulfill its mandate while remaining above its solvency rating. Different levels of severity are simulated based on plausible but unlikely events considering BDC's idiosyncratic risks and vulnerabilities. These simulations show that BDC's capital status can be significantly affected depending on the severity of economic conditions. As such, a stress testing capital reserve is maintained as a cushion to absorb excess volatility. Although the scenario narrative differs from historical events, its severity could be compared to the 1980's recession and is aligned with industry practices and OSFI's expectations.

### Reserve for venture capital activities

A capital reserve for direct VC investments is held to account for the need for follow-on investments.

## Operating range

An operating range was introduced by BDC in fiscal 2017, as part of continuous enhancements, to account for differences between planned and actual level of activities as well as other corporate plan assumptions that are difficult to predict. It allows capital to be managed near a target level by mitigating unplanned capital demand volatility without resorting to capital injections from the Shareholder.

## Internal capital ratio

BDC's key measure for determining and assessing the adequacy of its capital status is its internal capital ratio, which is expressed as the level of available capital over the economic capital required. BDC's capital management framework establishes different management zones to closely monitor the internal capital ratio through a complete business cycle, against a minimum limit (100%), a tolerance threshold in normal economic conditions (122%) and BDC's targeted internal capital ratio (134%). In normal economic conditions, BDC should maintain an internal capital ratio near the target, and within the operating range.

## Dividend Policy

BDC has revised its dividend policy to align with the dividend methodology included in the new Capital and Dividend Policy Framework for Financial Crown Corporations.

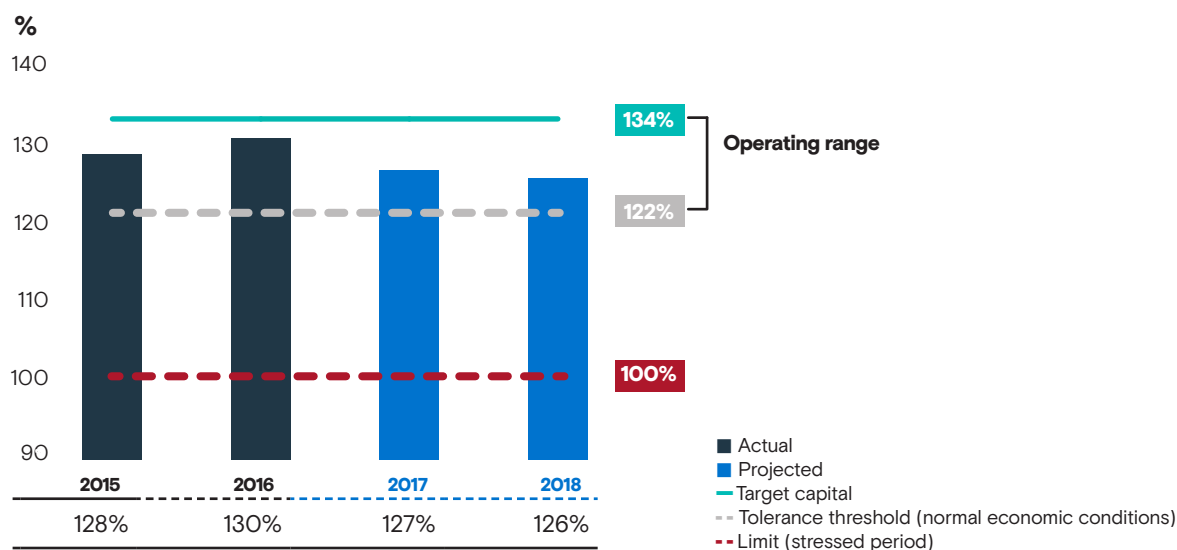
Effective in fiscal 2017, excess capital, calculated as the difference between available capital and capital demand less operating

range, will be declared as dividends and distributed to the Shareholder in the following fiscal year, subject to the discretion of the Board of Directors.

BDC's capital status will be in the low end of the operating range in fiscal 2018 and will not have excess capital available for dividend payments (table 21).

**Table 21: Internal capital ratio**

Available capital as a percentage of economic capital required



## Statutory limitations

The *BDC Act* requires that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC does not exceed 12 times its equity.

The debt-to-equity\* ratio is projected at 3.3:1 in fiscal 2017, meaning that for every \$3.30 of debt, BDC has \$1 of equity. The ratio will remain at 3.3:1 in fiscal 2018, well below the statutory limit of 12.0:1 (table 22, next page).

BDC's paid-in capital limit was raised by the Budget 2009 Implementation Act to \$3 billion from \$1.5 billion, as originally set out in the *BDC Act*. BDC's paid-in capital is currently at \$2.4 billion, but will increase to \$2.5 billion following the capital injection required for VCAP.

\* Debt-to-equity ratio is a measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities and excludes accumulated other comprehensive income or loss.

# F

## Projected consolidated financial statements

**Table 22: Consolidated statement of financial position**

Unaudited, \$ in millions

	2016	2017	2018
<b>ASSETS</b>			
Cash and cash equivalents	680	736	818
Asset-backed securities	510	517	550
Loans	19,718	21,817	24,037
Subordinate financing investments	751	853	991
Venture Capital investments	928	990	1,071
Venture Capital Action Plan	138	268	333
Loans and investments	22,045	24,445	26,982
Net defined benefit asset	54	103	91
Other assets	127	127	126
<b>Total assets</b>	<b>22,906</b>	<b>25,411</b>	<b>28,017</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	97	108	119
Short-term notes	16,848	18,632	20,632
Long-term notes	350	530	564
Borrowings	17,198	19,162	21,196
Net defined benefit liability	218	225	231
Other liabilities	43	48	53
<b>Total liabilities</b>	<b>17,556</b>	<b>19,543</b>	<b>21,599</b>
<b>Equity</b>			
Share capital	2,288	2,413	2,478
Contributed surplus	28	28	28
Retained earnings at beginning of year	2,570	3,004	3,409
Net income	536	411	485
Remeasurements of net post-employment benefit liability	(39)	62	-
Dividends on common shares	(63)	(69)	-
Retained earnings	3,004	3,409	3,894
Accumulated other comprehensive income	4	4	4
<b>Equity attributable to BDC's Shareholder</b>	<b>5,324</b>	<b>5,854</b>	<b>6,404</b>
Non-controlling interests	26	14	14
<b>Total equity</b>	<b>5,350</b>	<b>5,868</b>	<b>6,418</b>
<b>Total liabilities and equity</b>	<b>22,906</b>	<b>25,411</b>	<b>28,017</b>
<b>Debt-to-equity ratio</b>	<b>3.2</b>	<b>3.3</b>	<b>3.3</b>



**Table 23: Consolidated statement of income**

\$ in millions

	2016	2017	2018
Interest income	1,093	1,162	1,273
Interest expense	76	83	98
<b>Net interest income</b>	<b>1,017</b>	<b>1,079</b>	<b>1,175</b>
Net realized gains (losses) on investments	(6)	4	2
BDC Advisory Services revenue	17	20	26
Fee and other income	49	52	50
Net realized gains (losses) on other financial instruments	1	2	-
<b>Net revenue</b>	<b>1,078</b>	<b>1,157</b>	<b>1,253</b>
Provision for credit losses	(161)	(176)	(176)
Net change in unrealized appreciation (depreciation) of investments*	86	(47)	(25)
Net unrealized foreign exchange gains (losses) on investments	8	14	-
Net unrealized gains (losses) on other financial instruments	3	(4)	(1)
<b>Income before operating and administrative expenses</b>	<b>1,014</b>	<b>944</b>	<b>1,051</b>
Operating and administrative expenses	476	533	566
<b>Net income</b>	<b>538</b>	<b>411</b>	<b>485</b>
BDC's Shareholder	536	411	485
Non-controlling interests	2	-	-
<b>Net income</b>	<b>538</b>	<b>411</b>	<b>485</b>

\*Includes net fair value change and fair value adjustment due to realized gains (losses) and write-offs

**Table 24: Consolidated statement of comprehensive income**

\$ in millions

	2016	2017	2018
<b>Net income</b>	<b>538</b>	<b>411</b>	<b>485</b>
<b>Other comprehensive income (loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in unrealized gains (losses) on available-for-sale-assets	-	(1)	-
Net change in unrealized gains (losses) on cash flow hedges	(4)	1	-
	<b>(4)</b>	<b>(0)</b>	<b>-</b>
<i>Items that will not be reclassified to OCI</i>			
Remeasurements of net post-employment benefit liability	(39)	62	-
<b>Other comprehensive income (loss)</b>	<b>(43)</b>	<b>62</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>495</b>	<b>473</b>	<b>485</b>
BDC's Shareholder	493	473	485
Non-controlling interests	2	-	-
<b>Total comprehensive income</b>	<b>495</b>	<b>473</b>	<b>485</b>

**Table 25: Statement of cash-flows**  
\$ in millions

	2016	2017	2018
Net cash flows provided by operating activities	(849)	(1,592)	(1,619)
Net cash flows used in investing activities	(438)	(395)	(398)
Net cash flows provided by financing activities	1,300	2,043	2,099
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>13</b>	<b>56</b>	<b>82</b>
Cash and cash equivalents at beginning of year	667	680	736
<b>Cash and cash equivalents at end of year</b>	<b>680</b>	<b>736</b>	<b>818</b>



# Future accounting changes

Information is provided below on new standards, amendments and interpretations to existing standards that are not yet effective but that are expected to impact BDC's financial results. BDC is currently assessing the impact of these changes on its consolidated financial statements.

## IFRS 9—Financial Instruments

On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9—Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. The final version amends classification and measurement of financial assets, adds new requirements for the accounting of financial liabilities and for general hedge accounting and introduces a new expected loss impairment model. The IASB is continuing to work on its macro hedge accounting project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and will be applied retrospectively subject to certain exceptions.

## IFRS 15—Revenue from contracts with customers

On May 28, 2014, the IASB issued a new standard, IFRS 15—Revenue from contracts with customers, replacing IAS 18—Revenue. The new standard is effective for annual periods beginning on or after January 1, 2018.

The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods and services.

The new standard establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, both qualitative and quantitative. The objective is to disclose sufficient information to enable the users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

## IFRS 16—Leases

On January 13, 2016, the IASB issued a new standard, IFRS 16, Leases, which supersedes IAS 17, Leases and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value. Lessors will continue classifying leases as operating or finance, since IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.