



# Corporate plan summary

2018-19 to 2022-23

Operating budget

Capital budget

Canada



The corporate plan summary of the Business Development Bank of Canada (BDC) is based on the 2018-19 to 2022-23 BDC corporate plan as approved by the Governor General in Council on May 31, 2018, on the recommendation of the Minister of Innovation, Science and Economic Development and the Minister of Finance.



**On the cover:**

- 1** Gurmit Dhaliwal, CEO, Celayix Software, page 47.
- 2** Raed Bechara, owner and CEO, IPS, page 21.
- 3** Phyllis Day Chief, CEO, Advanced Water Technologies, page 27.
- 4** Ashley Wevers, Vice President, Advanced Water Technologies.
- 5** Josh Day Chief, President, Advanced Water Technologies.
- 6** Susan Drover, President, SAM Design.
- 7** Ryan Taylor, founder and Chief Design Officer, Fair Trade Jewellery Co., page 24.
- 8** Sarah White, COO and co-founder, Fairware.

**Note:** BDC's fiscal year runs from April 1 to March 31.  
For example, fiscal 2019 runs from April 1, 2018 to March 31, 2019.

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# Executive summary

Small and medium-sized enterprises (SMEs) play a crucial role in driving Canadian growth. As the only Canadian bank devoted exclusively to entrepreneurs, the Business Development Bank of Canada (BDC) aspires to make Canadian SMEs the most competitive in the world, with its unique combination of advice, investment and financial support.

BDC contributes to advancing the Government of Canada's priorities. In fiscal 2018, in response to the federal budget, BDC launched two major initiatives to help position Canada as a nation of innovators—the Cleantech Scale Up Initiative and the Venture Capital Catalyst Initiative (VCCI).

Its support for Indigenous, newcomers and women entrepreneurs, among others, also echoes the government's inclusiveness objective. In the recent past, BDC launched initiatives to support women-led technology firms and increase available financing for women entrepreneurs. It actually surpassed its financing goal ahead of schedule. The Bank is building on this success to implement a new plan of action to make BDC a world-leading financial institution for women business owners. The plan of action is a result of a thorough analysis of the women entrepreneur ecosystem and a review of access to BDC's services. It includes an ambitious target of \$1.4 billion in financing over three years, as well as initiatives to ensure BDC is at the forefront of advancing gender equality in the venture capital (VC) industry.

Over the planning period, BDC will remain steadfast in its strategy to help SMEs improve their competitiveness by taking bold steps to grow, expand internationally, enhance productivity and embrace innovation in all its forms. BDC's planned activities are grounded in the following three strategic objectives.

## **1. Increasing access to capital and advice for greater impact**

A BDC study shows that, despite favourable credit conditions, some SMEs have difficulty accessing the resources they need to achieve their ambition. As a development bank, BDC will continue to address entrepreneurs' unmet

needs by complementing the private sector's offering.

Based on the recent significant increase in activity via its virtual channel, BDC expects demand for small loans to keep growing in coming years. With loans made in partnership comprising 20% of its lending portfolio, BDC will also continue to use partnerships and indirect channels to increase access to its offering.

Over the planning period, BDC will continue to innovate to meet the evolving needs of entrepreneurs by expanding the breadth of its offering, diversifying the ways in which it interacts with entrepreneurs, enhancing its delivery model and being more efficient by streamlining processes. These innovations allow BDC to make it easier for entrepreneurs to access its services and to have a greater impact on more of them.

As a result of the above and anticipated market demand, BDC Financing acceptances are forecast to increase from \$6.7 billion in fiscal 2018 to \$7.2 billion in fiscal 2019.

Entrepreneurs need more than money to succeed. BDC Advisory Services provides them with much-needed advice, knowledge and skill-building opportunities. BDC Advisory Services has been adapting its offering to the different needs of SMEs based on their size and complexity, which has led to changes in its business model. Over the planning period, it will continue to help build the fundamental business capabilities of smaller SMEs through its small business solutions. For larger SMEs, its focus will stay on helping entrepreneurs address key business pain points. BDC will continue to invest in the success of entrepreneurs by assuming a significant portion of development and delivery costs of the solutions it provides, while its revenues from BDC Advisory Services are expected to increase to \$23 million by fiscal 2019.

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

As the government's Innovation and Skills Plan highlights, innovation is the cornerstone of Canadian growth. BDC supports innovative sectors in many ways, including through its

VC activities, which help Canadian innovators launch and scale technology-focused businesses, commercialize innovation, and build the skills of VC fund managers. BDC is the largest and most active early-stage technology investor in Canada, and, as such, constantly monitors the needs of the ecosystem. To address key gaps in the evolving VC market, BDC is adapting its approach to better support sectors strategic to the Canadian economy and attract additional third-party capital to support the larger investments needed to scale innovative companies. VC authorizations are expected to total \$255 million in fiscal 2019, while the portfolio at fair value should increase from \$1.2 billion in fiscal 2018 to 1.3 billion in fiscal 2019.

On behalf of the government, BDC manages the Venture Capital Action Plan (VCAP), which has attracted significant private sector investments to the asset class and is showing early signs of success. BDC is also implementing and managing the VCCI, which will further increase the availability of late-stage VC for Canadian entrepreneurs, while helping address gender balance in the VC industry.

The Innovation and Skills Plan emphasizes clean growth. BDC's new Cleantech Scale Up Initiative, capitalized by the government, will help build globally competitive Canadian cleantech firms and a long-term commercially sustainable cleantech industry that will, over time, be able to attract the necessary private sector capital investments to grow. The \$600 million initiative places a greater emphasis on higher-risk transactions while balancing the need to demonstrate commercial viability and portfolio sustainability. BDC expects to deploy \$130 million in fiscal 2019 in debt and equity transactions, including indirect investments through third-party VC funds.

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

Scaling firms, especially high-growth and high-impact firms, is vital to boost Canada's competitiveness. BDC's patient capital and advice spanning the business journey of growing firms help them reach their objectives.

With its Growth Driver Program, BDC Advisory Services is already helping close to 100 high-impact firms realize sustainable growth by providing expert advice to their CEO and management teams. Over the planning period, BDC will continue to enroll participants and refine the program's approach based on the feedback and data gathered from its first graduates.

Growth & Transition Capital offers patient funding to growing firms with limited tangible assets to offer as collateral, while limiting dilution of share capital ownership. In fiscal 2018, in response to market demand, BDC announced additional investments in growth capital, including investments in growth equity and business transition. As a result, Growth & Transition Capital acceptances are expected to increase from \$385 million in fiscal 2018 to \$410 million in fiscal 2019.

To support SME international expansion capabilities, BDC will also continue refining an organization-wide approach, in close collaboration with partners such as Export Development Canada and Global Affairs Canada.

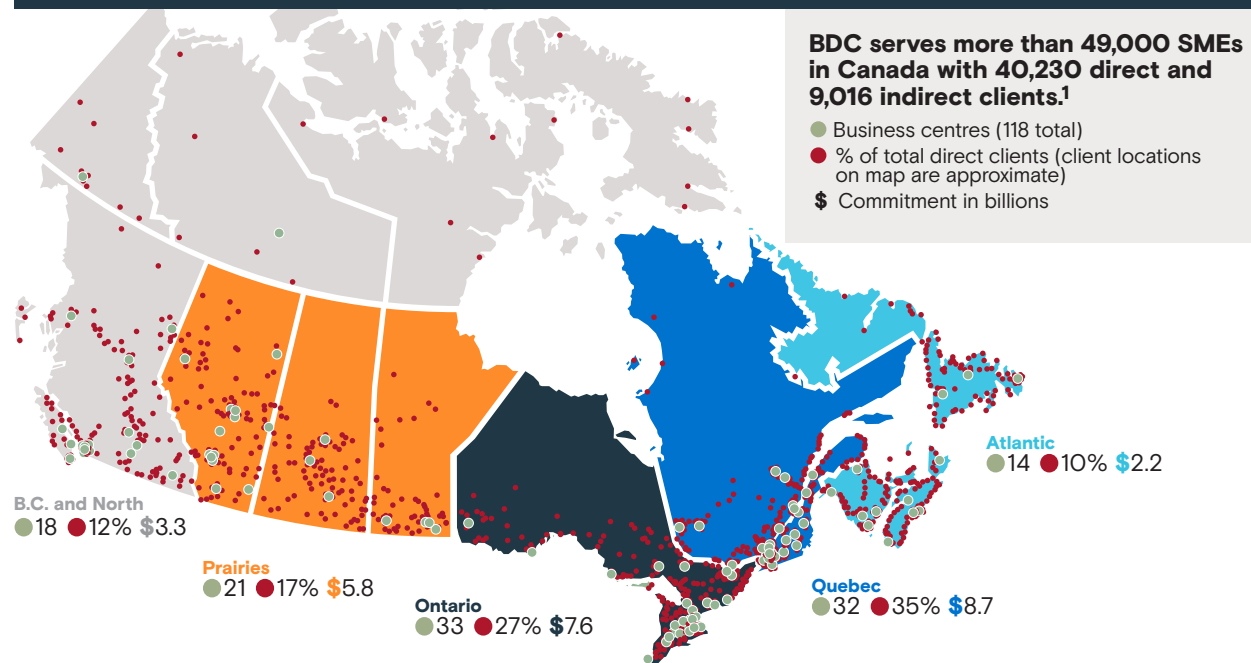
\* \* \*

As a result of anticipated market demand and the activities outlined above, BDC's overall portfolio is forecast to reach \$31 billion in fiscal 2019. Portfolio growth is expected to outpace growth in expenses, reflecting BDC's constant focus on efficiency gains, which should increase BDC's annual return on equity over the planning period.

BDC's net income is expected to reach \$554 million in fiscal 2019, providing the financial flexibility to support the long-term success of Canadian entrepreneurs. As returns generated by activities surpass the capital required to support portfolio growth, BDC expects to have excess capital for dividend payments in fiscal 2018 and fiscal 2019.

# BDC profile... highlights

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



## It has extensive reach.

- It has **610,000** interactions with entrepreneurs per year.
- It has a significant web presence: **4.5 million** visits to BDC.ca, **36,000+** eBook downloads and **42,000+** website assessments.
- Its publications have a combined circulation of **92,000**.

## It is a complementary player in the market.

- It caters to underserved segments.
- **22%** of its loans (in dollars) are made through partnerships.

## It has an outstanding client satisfaction rate.

- **94%** of its clients are satisfied.

## It encourages business innovation and growth.

- It backs approximately **600** companies through VC investments, which employ about **30,000** people.
- It is a limited partner in independent private funds and funds of funds representing **63%** of VC funds investing actively in Canada.
- **33%** of Growth & Transition Capital clients are high-growth firms<sup>2</sup> and **50%** are exporters.
- It supports high-impact firms through its Growth Driver Program.<sup>3</sup>

## It promotes international expansion.

- **17%** of its clients are exporters, compared to 10% of all Canadian SMEs.<sup>4</sup>

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

- It is the only Canadian bank devoted exclusively to entrepreneurs.
- It is the **1<sup>st</sup>** Canadian financial institution to obtain B Corp certification.<sup>5</sup>
- It takes more risk: **93%** of BDC's portfolio is sub-investment grade.<sup>6</sup>
- It plays a counter-cyclical role during economic downturns.
- Its Special Accounts group and Business Restructuring unit offer dedicated attention to help clients experiencing difficulty.

## It is proud to be an employer of choice.

- It is one of Canada's Top 100 Employers.
- It is one of the Best Workplaces for Canadians over 40.
- It received the 2017 Employee Equity Achievement Award.
- It won Catalyst Canada's 2017 Champion Award for advancing gender parity in the workplace.

# ... lines of business

Close to \$29 billion committed to Canadian entrepreneurs

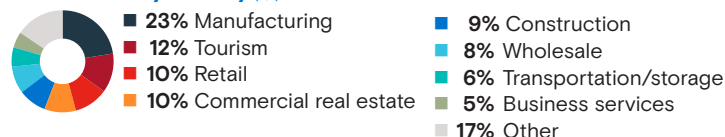
## BDC Financing

**Loans**—Term loans with flexible terms and repayment schedules.

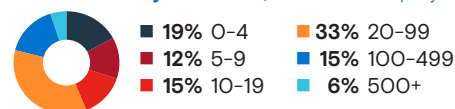
BDC Financing clients employ **10%** of Canada's entire small business workforce.<sup>4</sup>

**Commitment**  
**\$25.8 billion**

### Commitment by industry (\$)



### Commitment by firm size (number of employees)



**Asset-backed securities**—Debt financing through the pooling of assets.

In fiscal 2017, **8,219** SMEs benefitted indirectly from this support.

**\$945 million**

## BDC Capital

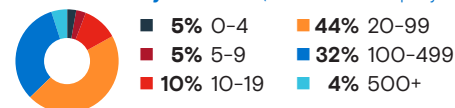
**Growth & Transition Capital**—Cash flow, mezzanine, quasi-equity and equity solutions for growth and transition projects.

**\$954 million<sup>7</sup>**

### Commitment by industry (\$)



### Commitment by firm size (number of employees)



**Venture Capital**—Equity investments in multiple sectors, both direct (investments in companies) and indirect (investments in funds).

In fiscal 2017, every dollar BDC invested in VC leveraged **\$6.06** from external investors.

**\$1.2 billion**



**Direct commitment**  
47.5% \$584.5 million

**Indirect commitment**  
52.5% \$645.5 million

## BDC Advisory Services

Relationship-focused advisory services that help increase revenues, reduce costs, innovate and build management and international expansion capabilities, together with an initiative targeting high-impact firms. BDC Advisory Services completed **1,800** mandates in fiscal 2017.

## Cleantech Scale Up Initiative

BDC's Cleantech Initiative will deliver \$600 million in debt and equity transactions that exceed BDC's normal risk appetite as well as in investments in VC funds between fiscal 2018 and fiscal 2022. This is in addition to the \$100 million of financing linked to BDC's planned activities under other business lines.

Unless otherwise noted, all data are for fiscal 2017.

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

<sup>2</sup> High-growth firms are defined as companies with annualized sales growth greater than 20% per year over a three-year period.

<sup>3</sup> High-impact firms have a disproportionate impact on the Canadian economy. See page 48 for more information.

<sup>4</sup> 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.

<sup>5</sup> B Corps (beneficial corporations) are businesses that act in ways that benefit society as a whole rather than focusing solely on profits.

<sup>6</sup> Refers to BDC Financing's outstanding loans portfolio. Sub-investment grade loans are rated BB+ or less.

<sup>7</sup> Includes both BDC and non-controlling interests.

# ... SME business journey offering



## Venture Capital

### Strategic investments

For start-ups and non-traditional, emerging venture models



### Direct and indirect investing

Commercialization of new tech ideas



### Co-investments

Commercialization of new tech ideas



## Growth & Transition Capital

Working capital for growth and transition projects

### Quasi-equity



### Mezzanine



### Cash flow



### Growth equity



## Financing

### Term lending

Soft costs (e.g., shipping, installation, training, architectural or engineering fees)



Working capital



Equipment



Real estate and technology financing



Challenging times support



Transition financing



## Advisory Services

### Business management fundamentals

For smaller SMEs



### Increase revenues

### Manage your business

### Reduce costs

### Innovate

For larger SMEs



### Growth Driver Program

For high-impact firms



### Online educative content

For all entrepreneurs



## Cleantech Scale Up Initiative





# ... areas of focus to increase SME competitiveness

## Providing financial and advisory services

- Patient, flexible capital for equipment, working capital, commercial real estate, and expansion projects
- Specific and complementary financing, capital payment postponements, and securitization to meet specialized needs
- Tailored advisory services to increase revenues, reduce costs, innovate and build management capability
- Streamlined processes and technology adoption to make it easier and faster for entrepreneurs to access services
- Support for more Canadian entrepreneurs with a pan-Canadian and virtual presence

## Meeting specific SME needs

- Offering adapted to entrepreneurs' needs and ambition by grouping entrepreneurs into segments to better target efforts
- Underserved demographics, such as women, Indigenous, newcomers, and young entrepreneurs
- Underserved business types, such as smaller, new and social-purpose businesses
- Regions with specific needs, such as the North and Atlantic provinces
- Sectors facing headwinds such as the oil and gas and softwood lumber industries

## Collaborating with partners

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

- Increased access to financing and advice for underserved markets
- Contributions to regional development
- Improvements to Canada's entrepreneurial ecosystem
- Partnerships with local and international organizations; associations and business networks; financial institutions; provincial governments; and industry clusters, innovation centres, accelerators and other federal entities

## Spearheading innovation

- Direct and indirect VC investments
- Support for the creation and adoption of information and communications technologies (ICT)
- Support for innovative industries such as ICT, cleantech, artificial intelligence, aerospace and automotive industries
- Financing to help firms bring innovative products and services to market
- Advice to help clients improve operational efficiency
- Management of VCAP and VCCI

## Driving growth and international expansion

- Spectrum of growth capital, including VC, equity, quasi-equity, and subordinated debt solutions
- Transition financing
- Targeted, issues-based consulting methodologies and program targeting high-impact firms
- Financing, advice and tools to help SMEs export and invest abroad, while working closely with Export Development Canada for seamless client experience

## Sharing knowledge and expertise

- 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 trends, VC industry and international expansion strategies

# Operating environment

BDC takes into consideration a number of economic and market factors in deciding how best to support SMEs in a manner that is complementary to the market. BDC's Corporate Plan is based on the following observations and assumptions.

## Economic conditions<sup>1</sup>

Global economic growth gained momentum in 2017 and is forecast to continue over the next few years. Factors affecting global economic growth include the following:

- Stronger business and consumer optimism is encouraging global trade and investment.
- Economic expansion in the United States continues in part due to greater business investment intensity, especially in the oil and gas sector. The recently adopted tax plan will further enhance investment.
- Growth in Europe, which has become more broad-based across countries, is expected to gradually decelerate in 2018 and 2019 due to structural issues and the uncertainty surrounding the impact of Brexit.
- China's continuing evolution—from an economy driven by foreign demand to one driven by domestic demand is expected to slow its pace of growth over the next few years.

Anticipated global economic growth	Share of global GDP (%)	Real GDP growth (%)			
		2016	2017	2018 forecast	2019 forecast
World	100	3.0	3.6	3.6	3.5
Oil-importing emerging market economies <sup>2</sup>	33	3.6	4.3	4.2	4.2
China	18	6.7	6.8	6.4	6.3
Euro area	18	1.8	2.5	2.2	1.6
United States	15	1.5	2.3	2.6	2.3
Japan	4	1.0	1.8	1.4	0.8
Canada	1	1.5	3.0	2.2	1.6
Rest of the world <sup>3</sup>	17	1.0	1.4	2.2	2.8

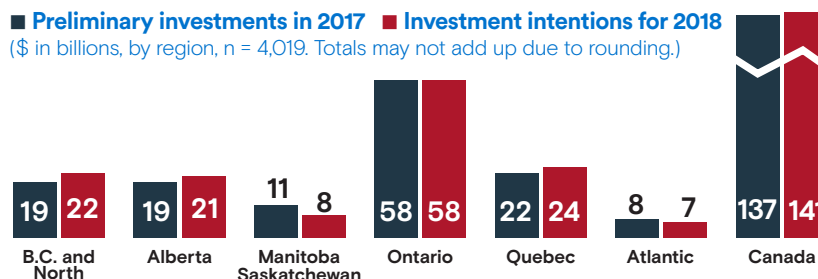
<sup>1</sup> Economic forecasts are based on the Bank of Canada's *Monetary Policy Report*, January 2018.

<sup>2</sup> 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.

<sup>3</sup> Includes oil-exporting emerging markets, such as Russia, Nigeria and Saudi Arabia, and other advanced economies, such as the United Kingdom and Australia.

In Canada, growth surged in 2017 and is forecast to average 1.9% in 2018 and 2019. Factors affecting Canada's economic growth include the following:

- Crude oil prices have rebounded from their 2014 low and will likely moderate during 2018 as demand declines and producers increase supply in response to higher prices.
- Prices of most other commodities, including metals, are expected to gradually rise as global growth improves. However, a return to pre-2007 price heights is not anticipated given the recent increase in the global supply of many commodities and slowing Chinese demand.
- The continuing strength of global growth, particularly in the U.S., should support Canadian economic activity, especially in energy, manufacturing, construction, tourism and transportation, as companies continue to invest and exports stabilize.
- Households are expected to continue to be key drivers of Canada's growth, as employment strongly picked up in 2017, boosting spending. However, given the high level of household indebtedness, current debt ratios are expected to rise as interest rates continue to increase.
- Governments' growing investments in infrastructure will benefit the construction and wholesale trade sectors.
- The Bank of Canada increased the overnight interest rate twice in 2017, reflecting the vigour of the economy. Interest rates are expected to continue rising slowly over the next few years, in line with economic growth.
- While the Canadian dollar recently appreciated, it is expected to stabilize as the growth of the U.S. economy outpaces Canada's.
- A BDC study<sup>1</sup> reveals that SMEs intend to spend more on investment projects in 2018, especially to sustain growth and increase their business value. This upswing, representing a 2.9% increase compared to investments made in 2017, is mainly due to a significant spurt in business acquisitions and spending on intangible assets. However, investment intentions related to physical assets, such as machinery and equipment and non-residential structures, are declining.



<sup>1</sup> BDC, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2018*, January 2018.

## Access to capital and advice

Overall credit conditions should remain favourable, as the effective interest rate for businesses, though slowly rising, remains relatively low. SMEs have a variety of options to access the financing they need as more non-traditional lenders enter the market.

However, a BDC study<sup>1</sup> reveals that access to financing remains an issue for some SMEs. It also confirms that business investment patterns are shifting from tangible to intangible assets. While traditional financing institutions continue to be the main providers of debt financing to SMEs with traditional assets, firms such as innovators and knowledge-based companies with limited tangible assets to offer as collateral continue to have difficulty obtaining financing. Exporters, start-ups and firms led by young people or by entrepreneurs with little credit history would also benefit from increased access to financing.

In the Canadian VC market, the amount raised and invested has increased in recent years, along with the number of deals. However, gaps remain, especially with respect to the amount of late-stage capital available to help technology firms achieve scale, with half of late-stage investments made by foreign VC funds.

SMEs need solid management advisory services to help them grow. Mid-sized and larger consulting firms tend to cater to the needs of larger businesses. However, the market for advisory services for smaller businesses remains very fragmented.

## The challenge of growing competitive Canadian SMEs

Canada's global competitiveness is lagging that of peer countries. Canada dropped from 10<sup>th</sup> place on the World Economic Forum's global competitiveness index in 2009 to 14<sup>th</sup> in 2017. Canada needs to strengthen its technological readiness, business sophistication and innovation capacities, while continuing to make efficient use of human capital.<sup>2</sup> To drive Canadian growth, businesses need to improve their competitiveness and take on many challenges, including the following.

- **Adapt to demographic changes.** An aging population and shrinking labour force mean that firms are having increasing difficulty finding skilled labour. While newcomers represent a growing segment of the Canadian population, their high unemployment rate indicates an insufficiently tapped source of talent. Moreover, Canadian small business owners are generally older than the workforce as a whole. Almost half of entrepreneurs expect to exit their businesses in the next five years and may be less likely to pursue growth or take risks.
- **Scale up.** A BDC study<sup>1</sup> reveals that companies, on average, are smaller today than they were 10 years ago and are barely growing. Fewer small firms expand to become mid-sized firms,

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<sup>1</sup> BDC, *Investment Intentions of Canadian Entrepreneurs: An Outlook for 2018*, January 2018.

<sup>2</sup> World Economic Forum, *Global Competitiveness Report 2017–2018*, September 2017.



and very few of the latter become large firms. This affects Canada's competitiveness since large firms perform better in the areas driving competitiveness: they are more productive, more innovative and more likely to export than smaller firms.

- **Improve business productivity.** Canada's business productivity is only 73% that of the U.S. and barely above the average of OECD countries. One of the main reasons is related to technology adoption. SMEs invest significantly less in ICT than U.S. SMEs do, both as a percentage of gross domestic product (GDP) and per worker. A recent BDC study<sup>2</sup> also suggests that, while Canadian SMEs have begun shifting to using digital technologies (ICT, robotics, smart tech, e-commerce platform, social media, etc.), only a small proportion have fully embraced it and reaping benefits in terms of increased productivity, lower costs and improved product quality.
- **Innovate.** Canadian SMEs invest less in R&D, as a percentage of GDP, than the U.S. or the OECD average and this gap has widened since the beginning of the 2000s. Product innovation is not the only way to increase competitiveness. Business model innovation is also key for businesses to differentiate themselves from competitors.
- **Diversify markets.** While exports are increasing, Canada 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 geographical export markets.

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<sup>1</sup> BDC, [The Scale-Up Challenge: How Are Canadian Companies Performing?](#) September 2016.

<sup>2</sup> BDC, [Industry 4.0: The New Industrial Revolution](#), May 2017.

**This portrait of Canadian business competitiveness highlights many areas for improvement. This is why BDC is steadfast in its focus on helping 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; accelerating 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.



## Increasing access to capital and advice for greater impact

BDC helps create prosperity in Canada by providing a unique combination of advice, investment and financial support to respond to entrepreneurs' needs and help them achieve their ambition.

To have a greater impact on more entrepreneurs, BDC successfully concluded a four-year initiative to increase its pan-Canadian footprint. It reached its goal of opening eight new business centres and 18 new shared offices, while also relocating 27 offices to create more regional impact.

BDC also introduced a new brand identity in fiscal 2017 to increase entrepreneurs' awareness of BDC's distinctive offering. The brand identity 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 period, BDC will continue to invest in its overall visibility, including through advertising and a significant online presence, ensuring it reaches entrepreneurs through a variety of channels.

Meeting entrepreneur's expectations regarding the value BDC adds to their business journey is critical to the integrity of BDC's brand. This is why BDC constantly focuses on enhancing the client experience across all channels. BDC is also working with an increasing number of entrepreneurs, which it does by facilitating access to capital and advice in different ways, including the following:

- partnering with public and private sector organizations
- paying particular attention to underserved segments of the economy
- giving entrepreneurs the advice, expertise and tools to succeed
- making it easier for entrepreneurs to do business with BDC

## Helping more entrepreneurs through partnerships

To reach as many Canadian SMEs as possible, BDC partners with a wide range of public and private sector organizations at the regional, national and international levels. BDC will continue to focus on strengthening ties with existing partners and on fostering relationships with key players in the entrepreneurial ecosystem.

A list of BDC's partnerships can be found in Appendix D.

### Examples of BDC partnerships


<b>Increase access</b>	<p>BDC provides financing and advisory services through direct and indirect channels to reach underserved markets.</p>	<ul style="list-style-type: none"> <li>■ ACCES Employment</li> <li>■ CanExport</li> <li>■ Community Futures Network of Canada</li> <li>■ Export Development Canada</li> <li>■ Futurpreneur</li> <li>■ Investissement Québec</li> <li>■ National Research Council – Industrial Research Assistance Program</li> <li>■ TAO Asset Management</li> <li>■ Women's Enterprise Centre</li> </ul>
<b>Contribute to regional development</b>	<p>BDC enhances its contribution to provincial and regional development by better understanding regional specificities and priorities.</p>	<ul style="list-style-type: none"> <li>■ Communitech Hub</li> <li>■ Government of Alberta</li> <li>■ Government of Ontario</li> <li>■ Government of New Brunswick</li> <li>■ Nova Scotia Business Inc.</li> </ul>
<b>Improve ecosystem</b>	<p>BDC collaborates with key stakeholders to create synergies while strengthening Canada's entrepreneurial ecosystem.</p>	<ul style="list-style-type: none"> <li>■ Accelerated Growth Service</li> <li>■ Canadian Intellectual Property Office</li> <li>■ Chartered Professional Accountants Canada</li> <li>■ Cisco</li> <li>■ Immigration, Refugees and Citizenship Canada</li> <li>■ National Angel Capital Organization</li> <li>■ Rise Asset Development</li> <li>■ Startup Canada</li> </ul>

■ National ■ B.C. & North ■ Prairies ■ Ontario ■ Quebec ■ Atlantic ■ International

 **\$450** million in co-lending authorizations in fiscal 2017

 **\$804** million in syndicated loan authorizations in fiscal 2017

**16,300+** The number of SMEs BDC has helped to date through indirect financing

 **\$1.3** billion F-PIL disbursements since the program's inception in fiscal 2012

BDC partners with other financial institutions and lenders to increase credit availability. Through **co-lending**, BDC shares or takes on more of the risk. Similarly, **syndicated loans**, which involve a group of lenders, offer the chance to finance larger projects. For example, this type of solution is used to finance capital-intensive, public-private partnership infrastructure projects; reserve-based lending; renewable energy projects; and asset-based lending.

**Indirect financing** is another way BDC serves more SMEs.

- Through the Funding Platform for Independent Lenders (F-PIL), a partnership between BDC and TAO Asset Management, BDC uses securitization techniques to fund finance companies in the automotive and equipment sectors through risk-sharing arrangements.
- BDC uses its securitization lending platform to help smaller and emerging independent finance companies grow in size and sophistication, thereby increasing credit available to SMEs. BDC will continue to search for opportunities to use this platform beyond the automotive and equipment sectors.
- BDC is assessing opportunities to lend directly to certain finance companies which provide advice or financing that improves the SME ecosystem and targets underserved entrepreneurs. BDC recently finalized its first such transaction was in partnership with a chartered bank.
- BDC will also continue to develop an approach for tapping into the institutional investor base, which includes pension funds, insurance companies, mutual funds and asset managers. BDC's participation in such transactions will help validate these investment opportunities for institutional investors.

## Meeting the specific needs of more entrepreneurs

BDC contributes to the government's Innovation and Skills Plan by supporting highly skilled entrepreneurs and innovators who are essential to Canada's long-term economic growth. It 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. In line with its development mandate, BDC is committed to ensuring its services are accessible to all entrepreneurs, and pays particular attention to the following.



**Underserved demographics**



**Underserved businesses**



**Regions with specific needs**



**Sectors facing headwinds**





## Underserved demographics

### Women entrepreneurs (WEs)

#### BDC WE assessment

The team consulted internal and external stakeholders, analyzed the WE client journey and identified best practices. The research included the following:

- 20 interviews with WE
- 20 interviews with thought leaders
- A survey of 370 entrepreneurs
- Five client journey workshops with the participation of over 50 BDC employees
- Best practices researched from over 100 Canadian and global companies

### Why?

Women-led businesses represent a great opportunity for the Canadian economy. However, 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, such as the service and retail sectors. Women-led firms are also underrepresented in the technology industry.

BDC aims to be a world-leading financial institution for women business owners. In fiscal 2018, a cross-functional team of BDC employees, in collaboration with Boston Consulting Group and Board members, undertook an assessment of the WE ecosystem and BDC's processes to ensure WEs' full access to and participation in its offering. The analysis found the following highlights.

- Despite an increasing number of WE-owned businesses, WEs continue facing challenges in accessing capital.
- BDC is capturing a fair share of the WE market as WEs represent 14% of its lending portfolio, while they make up 16% of Canadian entrepreneurs. Moreover, VC investments in companies with women in top decision-making roles represent 13% of BDC's VC portfolio versus 10% for Canada as a whole.
- WEs are slightly more likely to be approved for financing than other BDC clients.
- WEs request loans that are, on average, 42% smaller than those of their male counterparts.
- WEs' awareness of BDC could be improved: only 53% of WEs know BDC, while 77% of them know other lenders.

### How?

- To enhance its impact on WEs, BDC has created an action plan that includes the following:
  - increasing the accessibility of BDC services with the help of partners, notably by setting an ambitious target of \$1.4 billion in new financing for WEs by the end of fiscal 2021, raising BDC's visibility and making unconscious bias training part of BDC's ongoing development curriculum
  - tailoring its approach to address underserved WE needs, notably by considering providing executive coaching and online learning modules to help WEs develop needed skills
  - being at the forefront of advancing gender equality in VC, as



**Caitlin MacGregor**  
CEO  
Plum.io

Caitlin MacGregor, from Plum, received VC from BDC Capital to grow her technology business, which uses psychometric assessments to help companies succeed by bringing predictability to the hiring process and company culture.

explained on the following page

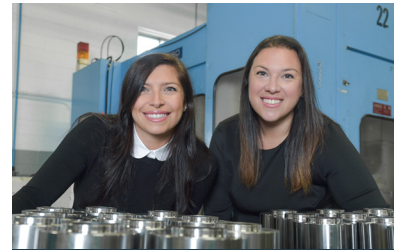
- being a thought leader and catalyzing the Canadian WEs ecosystem, notably by increasing cohesion and collaboration among ecosystem stakeholders, and improving opportunities for WEs through a BDC supplier diversity program

BDC's new action plan builds on the following:

- BDC launched a women initiative in fiscal 2015 and formed a pan-Canadian WE team.
- Ahead of schedule, BDC has surpassed its goal to provide \$700 million in term lending between fiscal 2016 and fiscal 2018 to majority women-owned businesses. With three months left in its commitment, BDC has authorized close to \$878 million (as at December 31, 2017).
- BDC has started delivering on its fiscal 2017 commitment to provide \$70 million over five years to women-led tech firms.
  - BDC has earmarked \$50 million for its **Women's Growth Acceleration program** for women founders, which provides equity and equity-like investments at early and later stages to help growing tech companies led by women.
  - BDC has dedicated \$10 million to its **Women's Venture Acceleration program**, which invests in seed-stage women-led tech start-ups
  - BDC has dedicated \$10 million to indirect investments, with a focus on VC funds investing in women-led firms, or other initiatives to increase the depth of networks and resources for women founders. Under the first initiative, announced in May 2017, BDC will act as an anchor investor by providing \$5 million to StandUp Ventures Fund I to invest in Canadian seed-stage high-growth, capital-efficient ventures in health, information technology and cleantech.
  - BDC is encouraging female investment activity and initiatives to support women in senior management positions through coaching, mentoring and education. BDC is also spearheading the development of a diversity scorecard and a code of conduct to bolster Canada's VC industry standards regarding to women-led tech firms, women investors and women fund managers.
- BDC has partnered with many organizations to support WEs.

Examples include the following:

- testing a regional approach to co-financing WEs with the Women's Enterprise Centres
  - sponsoring the Start-Up Canada Women Entrepreneur Award for WEs who have had an impact on Canadian entrepreneurship
  - delivering courses on financial literacy for WEs across Canada, especially in rural areas, with Chartered Professional Accountants Canada, the Community Futures Network of Canada and other organizations
  - helping women-owned businesses enhance their digital strategies with Cisco, Communitel and Women of Influence
  - working with Canadian Manufacturers & Exporters to promote the participation of women in the manufacturing sector
- In fiscal 2017, BDC sponsored or participated in more than 270 events related to WEs across Canada and reached more than 22,000 entrepreneurs.
- BDC has signed the Catalyst Accord, an initiative that encourages Canadian corporations to increase female representation in business leadership.
- BDC's Executive Vice President, Financing, Pierre Dubreuil, received Catalyst Canada's 2017 Champion award for advancing gender parity in the workplace. In five years, he transformed his leadership team from all male to two-thirds women and one-third visible minority.
- BDC continues to provide advisory services to WEs. The number of mandates over the past three years has exceeded BDC's expectations.



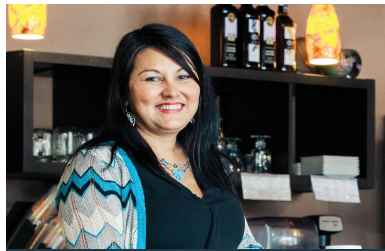
**Susy and Cathy Imbriglio**  
Owners  
Imbritech Industries

Sisters Susy and Cathy Imbriglio took over Imbritech, an industrial manufacturing company, from their father. After adjusting to the business transfer, they decided it was time for Imbritech to shift gears and develop new markets. Among other things, they worked with a BDC expert to evaluate and optimize their sales and marketing approach. The two entrepreneurs have also obtained a loan from BDC to purchase equipment. They are now better equipped to face increased competition and diversify their customer base.



Underserved demographics

## Indigenous entrepreneurs



**Sharon Bond**

Owner  
Kekuli Café

With the help of a loan from BDC's Indigenous Banking Unit, Bond was able to open her second Kekuli Café, serving Indigenous cuisine in Merritt, B.C. She became involved in the community, serving as a band councillor with the Nooaitch First Nation and sits on the board of the Merritt and District Chamber of Commerce as well as on the board of Indigenous Tourism B.C.

### Why?

Many are located in remote areas, and legislation prohibits the use of on-reserve assets as collateral for non-Indigenous creditors.

### How?

- BDC authorized \$50 million for 288 loans to Indigenous businesses in fiscal 2017, bringing its commitment to a total of \$289 million for 508 clients, a 10% increase in the total number of clients compared to the previous year.
- BDC supported the efforts of Impakt Inc., a B Corp consulting agency, to research the needs of Indigenous women entrepreneurs in Alberta.
- BDC has a dedicated team, the Indigenous Banking Unit, that understands the unique challenges Indigenous businesses face. It fosters relationships with Indigenous communities, organizations and Aboriginal financial institutions to deepen its understanding of financing gaps for Indigenous entrepreneurs and continue to improve their access to financing.
- BDC is partnering with Chartered Professional Accountants Canada to deliver financial literacy sessions targeted to Indigenous entrepreneurs.
- BDC continues to complement existing services offered by Indigenous financial institutions with the following solutions.
  - **Indigenous Entrepreneur Loan**—This loan offers flexible repayment terms with no personal assets taken as collateral. BDC recently increased the ceiling from \$25,000 for start-ups and \$150,000 for more established companies to \$150,000 and \$250,000 respectively. BDC donates a percentage of the annual interest to a charitable organization of the entrepreneur's choice.
  - **Aboriginal Business Development Fund**—BDC has committed \$750,000 to three Indigenous grassroots organizations that offer microcredit loans.
  - **Advisory services**—Experienced consultants leverage technology to reach entrepreneurs and deliver BDC advisory services in all regions, especially remote areas.





Underserved demographics

## Newcomer entrepreneurs



**Raed Bechara**  
Owner and CEO  
Integrated Pallet  
Management Solutions

Integrated Pallet Management Solutions repairs, reconditions and recycles damaged pallets for clients in Canada, the U.S. and Europe. With BDC's help, Bechara, an immigrant from Syria, was able to expand into a larger facility and increase his truck-trailer fleet, allowing him to gain economies of scale. He also hired 15 Syrian refugees and provided language lessons for them during paid work time.

### Why?

They often lack credit history, information, resources, and networks.

### How?

- BDC supports ACCES Employment's Entrepreneurship Connection to provide newcomers with knowledge of the Canadian business environment and mentoring opportunities. The program is available in Toronto and Ottawa and will soon be available in Hamilton, Vancouver and the Atlantic region. An Arabic version of the program was also piloted in fiscal 2017. To date, the program has helped more than 383 new Canadians and supported the creation of 154 businesses.
- BDC takes part in a multi-party working group to help Syrian refugees integrate into the workforce.
- BDC continues to refine a small business loan product 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.
- BDC continues to evaluate opportunities to better cater to the needs of newcomer entrepreneurs through its own offering and with the help of partners.



## Underserved demographics

### Young entrepreneurs



**Carolayne Parent  
Alyeska Guillaud and  
Mélanie Heyberger**  
Cofounders  
From Rachel

From Rachel sells tights online, by subscription. The young cofounders turned to BDC for a small loan to finance their growth. They saw an opportunity to create an online brand that would connect with millennials. The company developed an algorithm to tailor product recommendations to each customer's preferences. Their social media strategy allows them to gather instant feedback on trends and new collections, helping them predict future sales. While the company currently sells only in Canada, the partners have plans to expand to the U.S. in the near future.

### Why?

They often lack credit history, information, resources, and networks.

### How?

- BDC has partnered with Futurpreneur Canada to provide loans of up to \$30,000 to aspiring entrepreneurs and a \$20-million credit facility to Futurpreneur Canada. As at March 31, 2017, close to 2,050 entrepreneurs were benefitting from \$44 million.
- BDC promotes and celebrates young entrepreneurs through the following.
  - Enactus—The BDC Entrepreneurs First Project awards \$2,500 to each of 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.
  - Startup Canada—BDC supports the Canadian start-up community by sponsoring and attending Startup Canada events across the country and offering both flexible financing and advisory services, such as business coaching and marketing workshops.
- BDC continues to collaborate with accelerators, as well as Startupfest. It hosts the ScaleupFest, designed to help seed- and early-stage companies increase their chances of commercialization, and AcceleratorFest, intended to help develop and inform those who run accelerators in Canada.



## Underserved businesses

### New businesses

#### Why?

They often lack revenues and business know-how.

#### How?

- In fiscal 2017, BDC financed close to 2,500 new businesses to help them get off the ground.
- BDC continues to provide advisory services, working capital, and funds for purchases of fixed assets, marketing, start-up fees or purchasing a franchise.
- BDC continues to make direct and indirect VC investments in start-ups.

### Smaller businesses

(<20 employees)



**Sean Stephens**  
CEO  
Treefrog Inc.

Treefrog specializes in graphic design and website development. When an opportunity arose to purchase the intellectual property and assets of the U.S.-based company that housed their data, Treefrog needed financing that would not affect cash flow for other projects. Although the company had limited assets to offer as collateral, BDC's loan allowed Treefrog to maintain its working capital through payment deferrals. Treefrog also took advantage of BDC's advisory services to improve its cash flow management. As a result, the company has decreased its operating costs and gained more control over its digital assets.

#### Why?

They often lack collateral and management capabilities.

#### How?

- Through its online platform, BDC continues to offer flexible financing without requiring collateral for loans under \$100,000. Such loans have increased significantly over the last few years, reflecting a clear market need. Over 95% of BDC clients with such loans have fewer than 20 employees.
- BDC continues to provide advisory solutions to help entrepreneurs build business management fundamentals in the areas of human resources, leading change, financial management, strategic planning and sales and marketing.



Underserved businesses

## Social purpose firms



**Ryan Taylor**  
Founder and  
Chief Design Officer  
Fair Trade Jewellery Co.

With a small loan from BDC, Ryan Taylor opened North America's first fair trade jewellery store in Toronto.

A B Corp entrepreneur, Taylor also innovates to create economic value for the employees of artisanal gold mines in international supply chains.

### Why?

They prefer bankers who understand their purpose.

### How?

- BDC understands their purpose given that the Bank itself is certified B Corp.<sup>1</sup>
- BDC provides financing and advisory services to an increasing number of social entrepreneurs.
- BDC builds relationships with organizations supporting social entrepreneurs across Canada and participates in related events, such as the B Corp Champions Retreat.
- BDC helps grow the Social Venture Exchange, an online platform providing financial expertise and connecting social ventures with potential investors.
- BDC promotes the benefits of B Corp certification with its free business performance evaluation tool, which entrepreneurs can use to benchmark their social and environmental impact against that of their peers.

<sup>1</sup> B Corps are businesses that act in ways that benefit society as a whole rather than focusing only on profits.



Regions with specific needs

## Atlantic provinces



**Shawn Kersey**

President  
Data Wiring Solutions

Data Wiring Solutions is a telecommunication cabling contractor based in Halifax. With support from BDC's Growth & Transition team, Kersey was able to buy out his partner while pursuing an acquisition and major expansions. The company now employs 150 people across Atlantic Canada and Ontario.

### Why?

BDC wants to help build a vibrant economic future in a region where an aging population hampers economic growth.

### How?

- In support of the Atlantic Growth Strategy, BDC has earmarked \$280 million in fiscal 2018 to help SMEs across Atlantic provinces over the next two years. This financing targets the ICT, agri-food, ocean technology and tourism industries, and represents a \$100-million increase in BDC's normal lending volume for these industries in the region.
- BDC has signed letters of intent with the Nova Scotia and New Brunswick governments to increase SME competitiveness by doing the following:
  - improving SME access to scale-up capital
  - collaborating on initiatives to increase SME's capacity for international expansion
  - encouraging SME productivity improvement and innovation
  - identifying ways to support, retain and grow firms, recognizing the importance of succession planning
- BDC continues to partner with industry stakeholders and the Atlantic Canada Opportunities Agency to help Canadian companies capitalize on opportunities stemming from the National Shipbuilding Procurement Strategy.

## The North

### Why?

Firms in the North face unique challenges, including difficulty in finding and retaining skilled talent, high transportation costs, remote locations, limited infrastructure, and non-existent or too costly advisory services.

### How?

- BDC collaborates with partners, such as CanNor and Community Futures, for greater geographic coverage.
- BDC participates in the Conference Board of Canada's Centre for the North, to research issues affecting Canada's North.
- BDC promotes entrepreneurship to the region's youth by partnering with Cisco and Junior Achievement Canada to offer interactive learning session in schools, and with Futurpreneur Canada to support the ThriveNorth's annual business challenge.
- BDC continues to use technology to make its advisory services more accessible, notably by delivering advisory services to small business owners remotely.



## Sectors facing headwinds

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### Oil and gas

#### Why?

The 2015 fall in crude oil prices affected the supply chain.

#### How?

- Since November 2015, BDC has authorized close to 98% of its \$850 million commitment for higher-risk financing, quasi-equity financing and equity transactions to firms affected by the fall in crude oil. BDC will continue to provide support through its existing offering.
- BDC continues to provide tailored advisory services to better address entrepreneurs' needs, especially the need to tackle productivity issues.
- While global oil prices increased significantly in 2017, the price Western Canadian producers obtain has not kept pace due to limited options to get crude oil to the global marketplace. BDC will continue to monitor entrepreneur needs for exporting assistance, diversification, mergers and acquisitions, and working capital for business improvement.

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### Softwood lumber industry

#### Why?

Entrepreneurs in the softwood lumber industry who have been affected by U.S. tariffs and duties need to diversify.

#### How?

- In June 2017, BDC committed \$250 million over three years to this industry. As at December 31 2017, BDC had extended 119 loans worth \$65 million. U.S. tariffs and duties have not affected Canadian firms as much as expected, given that a limited Canadian supply of softwood lumber and strong U.S. demand have kept prices relatively high, while the cost of the tariffs and duties has largely been passed on to U.S. consumers.
- BDC offered capital and interest payment postponements on loans.



## Giving entrepreneurs the advice, expertise and tools to succeed

Canadian SMEs are led by ambitious entrepreneurs who have the success of their businesses at heart. They, however, confront business challenges they may not be equipped to tackle, such as finding ways to reach more clients, improve productivity and strengthen their management skills. 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 BDC study<sup>1</sup> 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.

The market for advisory services geared toward SMEs is fragmented, dominated by independent consultants and boutique advisory firms that often cannot offer the breadth of expertise that SMEs need on a pan-Canadian basis. This is why BDC is leveraging its client-facing financing and advisory force, as well as its national network of subject-matter experts, to deliver proven advisory solutions, with the aim of increasing Canadian SME access to timely and relevant advice.

Over the last few years, BDC has refined its approach to better cater to the unique needs of both smaller and larger SMEs.<sup>2</sup> Smaller SMEs benefit most from a coaching-based approach designed to increase knowledge and build capacity related to business management fundamentals, such as strategic planning, financial and human resources management, leading change, and sales and marketing.

Larger SMEs have more complex needs that are better addressed by exploring core issues in depth and developing a six- to 18-month roadmap to address those issues. BDC uses a methodology that directly engages entrepreneurs and their management teams in the discussion and helps them clarify their current situation, priorities and potential next steps, ensuring that the journey is theirs and they are empowered. BDC has developed a suite of more than 25 advisory solutions to help these entrepreneurs address major challenges throughout their business journey—to increase revenues, reduce costs, and manage their businesses. The latest solution to be developed will help firms explore innovative business models to make them more competitive.

Entrepreneurs need more than money to succeed. They also need advice, knowledge and skill-building opportunities to help them make decisions and create new growth opportunities for their businesses.



**Phyllis Day Chief**  
CEO  
Advanced Water  
Technologies

Advanced Water Technologies, a small biotechnology company, enjoyed a significant increase in sales following the commercialization of a new product. The firm's rapid growth uncovered a need for a more formal growth strategy. With the help of BDC consultants, Day Chief developed a strategic plan and a marketing plan. This work has laid a solid foundation for more rapid expansion.

<sup>1</sup> Statistics Canada and BDC, [Measuring BDC's Impact on Its Clients \(2008-2012\)](#), December 2016.

<sup>2</sup> Smaller SMEs < \$2 million in revenues > larger SMEs.

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.

Over the planning period, BDC will continue to work with entrepreneurs to ensure that the advisory mandates 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.

### BDC advisory solutions at a glance

Smaller SMEs	Larger SMEs			
Business management fundamentals	Increase revenues	Manage business	Reduce costs	Innovate
Human resources Sales and marketing Leading change Financial management Strategic planning	<b>Sales and marketing</b> <ul style="list-style-type: none"> <li>→ Know your potential</li> <li>→ Market intelligence</li> <li>→ Brand influence</li> <li>→ Website power</li> <li>→ Promotion results</li> <li>→ Sales impact</li> </ul> <b>International growth</b> <ul style="list-style-type: none"> <li>→ U.S. market entry plan</li> <li>→ International growth potential</li> <li>→ International market selection</li> </ul> <b>High-impact firms</b> <ul style="list-style-type: none"> <li>→ Growth Driver Program</li> </ul>	<b>Business capabilities</b> <ul style="list-style-type: none"> <li>→ Strategic planning</li> <li>→ Financial planning</li> <li>→ Management framework</li> <li>→ Advisory board program</li> <li>→ Human resources growth</li> </ul>	<b>Operational efficiency</b> <ul style="list-style-type: none"> <li>→ Operational optimization potential</li> <li>→ Essential optimization projects</li> <li>→ Advanced optimization projects</li> </ul> <b>Certification</b> <ul style="list-style-type: none"> <li>→ Certification support: ISO 9001 and ISO 9001:2015 revision, ISO 14001, GFSI, HACCP, occupational health and safety<sup>1</sup></li> </ul>	<b>Technology</b> <ul style="list-style-type: none"> <li>→ Technology investment plan</li> <li>→ Technology action plan</li> <li>→ System selection support</li> <li>→ Technology contract review</li> </ul> <b>Explore alternative business models</b>

<sup>1</sup> ISO = International Organization for Standardization; GFSI = Global Food Safety Initiative; HACCP = Hazard Analysis Critical Control Point

In addition to providing advisory services, BDC helps entrepreneurs draw on BDC's deep understanding of what it takes to create and grow competitive businesses by sharing knowledge in different ways.

→ **Thought leadership to inform the entrepreneurial ecosystem.** BDC has had deep connections with entrepreneurs across the country for 73 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.

→ **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 and gain insights into economic trends affecting SMEs. In fiscal 2018, BDC continued to increase the breadth of its online content, making more than 1,000 content assets available to entrepreneurs in a wide variety of formats, including articles, eBooks, video, assessment tools, interactive training and client stories. It is proud to be the 2017 recipient of the Best Content Marketing Program in Financial Services award from the Content Marketing Institute, the leading global content marketing education and training organization.

Over the planning period, BDC will continue its efforts to offer high-quality and useful content in formats that entice entrepreneurs to enhance their knowledge.

→ **Inspirational, educative and content-rich events.** Often in collaboration with partners, BDC 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.

Its annual flagship event, **BDC Small Business Week™**, promotes and celebrates entrepreneurship across Canada, while providing SMEs with tools and information to help them increase their competitiveness. The theme of its 38<sup>th</sup> edition, Future-proof your business, focused on emerging demographic and technological trends that are transforming the economic environment and key business functions for SMEs. BDC provided concrete recommendations to help SMEs start adapting their businesses to tomorrow's trends today. BDC also partnered with Startup Canada, as well as with Facebook to expand the reach of its message and to provide entrepreneurs with the most up-to-date tools, insights and best practices to help them navigate virtual marketplaces.

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

*Exporting: A Key Driver of SME Growth and Profits* (April 2017)

*Industry 4.0: The New Industrial Revolution* (May 2017)

*Canada's Venture Capital Landscape: Challenges and Opportunities* (June 2017)

*The Coming Wave of Business Transition in Canada* (September 2017)

*Future-Proof Your Business* (October 2017)

*What Do Buyers Look for When Purchasing a Business?* (November 2017)

*SME Investment Intentions in 2018* (January 2018)

*Scaling: a Blueprint for Growth* (March 2018)

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



**Nicole Smith**  
Founder and CEO  
Flytographer

Flytographer is an online marketplace that connects vacationers with 400 professional photographers in 200 cities around the world. Smith turned a great idea into a an instant hit—the company has grown over 7,000% since its launch. BDC's online platform made it easy and convenient for Smith to get the liquidity she needed to enable the company's rapid growth.

## 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.

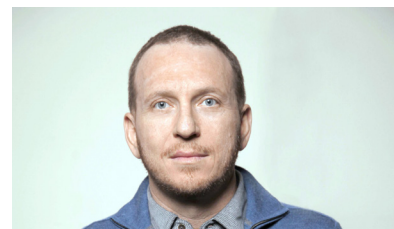
- SMEs' needs and expectations can vary greatly, depending on firm size and complexity. While some are looking for virtual interaction, others desire more advice and a deeper face-to-face relationship with BDC. As such, BDC is continuing to adapt its offering, processes and delivery channels to offer value propositions that reflect those differences. This approach makes BDC easier to do business with while also increasing its impact on more entrepreneurs.
- The automation of processes and streamlining of applicant information requirements contributed to increased processing capacity for BDC's virtual channel, thereby making access to financing more timely and efficient for small clients across the country. Authorizations of loans of up to \$100,000 through this channel have increased significantly over the past few years. To make it even easier for entrepreneurs to access financing, BDC is looking to further increase the ceiling for online loans in the future. BDC will continue to enhance its relationship with entrepreneurs who prefer online service by investing in technology permitting enhanced communication.

BDC is also investing in technology to simplify and secure communications and collaboration with other organizations' systems in order to facilitate the online loan authorization process and add value to its offering. It is hoping to use this technology with more partners, especially those catering to underserved groups, such as young entrepreneurs and those located in remote areas.

- BDC is leveraging the expertise of its financing account managers, who, as development bankers, understand the challenges entrepreneurs face and can easily guide them should they decide to invest in advisory services. BDC has also equipped its delivery consultants with simple tools and templates that enhance the personalized and value-added coaching they provide to entrepreneurs. The virtual delivery of the Business Management Fundamentals series of solutions is another way BDC makes it easier for smaller SMEs, especially those in remote areas, to access advisory services in a timely fashion.
- With its mobility strategy, BDC is enabling client-facing employees to work anywhere, at any time and from any corporate mobile device. This strategy permits more meaningful discussions with clients and significantly reduces processing and disbursement times for some types of loans. All BDC account managers are equipped with tablets and mobile applications that allow them to do the following.
  - authorize loans in a single visit to an existing client
  - take meeting notes, retrieve and edit client documents, and capture signatures.
  - aggregate relevant internal and external information on a client history and industry
  - present clients with interactive scenarios that demonstrate the impact of different options
  - propose and finalize pre-approved advisory services in one visit

Over the planning period, BDC will continue to deploy data-driven applications that will help its front-line employees add even more value to discussions with clients by accessing BDC's knowledge base. It is also continuing to adopt 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.

BDC people are growth engineers: They are curious, action-oriented and driven to identify opportunities to better serve Canadian entrepreneurs. Through its newly launched **Innovation Program**, whose mission is to stretch the boundaries of BDC's impact by capturing and experimenting with new ideas, BDC is leveraging the knowledge and insights of its talented workforce to drive innovation so that it can better serve entrepreneurs.



**Arie Koifman**  
Founder and CEO  
Servomax

Servomax is a high-growth company that is specializing in leasing and placing of Nespresso and high tech coffee machines. Koifman wanted a BDC loan for working capital and to invest in equipment. Away on business for an extended period, he was unable to sign the loan documents in person. With BDC's Express Loan application, his account manager was able to send him the documents to sign electronically. This proved highly convenient for Koifman who could continue focusing on his business abroad.

## Summary: Increasing access to capital and advice for greater impact

### BDC recently:

- successfully concluded a four-year initiative to increase its pan-Canadian physical presence to be closer to entrepreneurs
- provided a senior revolving facility to an alternative lender offering tailored financial solutions to firms unable to obtain financing from traditional providers
- enhanced its support for WEs by:
  - conducting an accessibility review to gain insights into how BDC can better serve WEs
  - surpassing, ahead of its fiscal 2018 schedule, its goal of providing \$700 million to majority women-owned firms
  - beginning to deliver on its five-year \$70 million commitment to women-led tech firms
  - sponsoring or participating in more than 270 women entrepreneur-focused events
- increased the ceiling for start-ups and more established companies under its Indigenous Entrepreneur Loan
- earmarked \$280 million in fiscal 2018 to support the Atlantic Growth Strategy
- committed \$250 million over three years in fiscal 2018 to help entrepreneurs in the softwood lumber industry
- refined its advisory services approach to better cater to the needs of both smaller and larger SMEs
- published many studies on topics such as exports, industry 4.0, Canada's VC landscape, business transitions and trends affecting SMEs
- held the 38<sup>th</sup> edition of BDC Small Business Week™ under the theme Future-proof your business

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

- investing in its overall visibility, including through advertising and a significant online presence, ensuring entrepreneurs can reach BDC through a variety of channels
- focusing on strengthening ties with existing partners and fostering relationships with key players in the entrepreneurial ecosystem
- enhancing its indirect financing reach by searching for opportunities to use its securitization lending platform with independent companies to reach more SMEs
- reviewing the accessibility of its offering to key segments
- assessing the feasibility of further increasing the ceiling for online loans to make it easier for SMEs to secure small loans
- adjusting its advisory services offering to reflect market requirements
- delivering its plan of action to further support WEs by:
  - increasing the accessibility of BDC services, notably by setting an ambitious new \$1.4 billion financing target for WEs over three years
  - tailoring its approach to address WE underserved needs
  - being at the forefront of advancing gender equality in VC
  - being a thought leader to catalyze the WE ecosystem
- increasing the breadth of its online educative content
- publishing research on SME-focused topics
- continuing to leverage new technologies to make it easier for clients to do business with BDC





## Supporting innovation and productivity to unlock SME success

The federal government's Budget 2017 Innovation and Skills Plan presents a bold strategy to help Canada realize its potential as a global leader in innovation. 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 to support the 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.

Healthy innovative sectors—fuelled by business investments in technology and R&D—are 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 innovative companies and its extensive footprint in Canadian VC, BDC plays an important and complementary role in helping make Canada a world-leading centre for innovation.

Innovation is 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 eliminate inefficiencies and adopt innovative business models to be more competitive.

### Supporting the innovative Canadian technology sector

The tech industry is important to the Canadian economy as it is fast growing, highly R&D intensive and export oriented. Tech firms generally face financial hurdles in that they have a long road to profitability, have cash-intensive activities, require atypical financing options and have limited collateral or established revenues to secure financing. BDC is refreshing its strategy to support tech SMEs with the aim of inspiring and equipping tech entrepreneurs to become worldclass, Canadian-based champions whose growth exceeds that of the global market.



**Jonathan Ferrari  
and Neil Cuggy**  
Founders  
Goodfood.ca

Goodfood is an e-commerce company that ships recipes and their accompanying ingredients directly to individual households. It has become one of the largest subscription food companies in Canada. Goodfood's co-founders approached BDC to obtain financing to fuel their growth. With a working capital loan, they were able to increase the number of employees and invest in a multi-channel marketing strategy. With the help of BDC's advisory services, they were also able to streamline several production processes and thus improve their efficiency and ability to meet increasing demand.

BDC's specialized tech teams across Canada currently offer solutions at every stage of a tech company's growth journey.

- BDC's VC activities help build innovative and globally competitive tech companies (page 38 to page 43).
- BDC is experimenting with a **technology start-up loan facility** for companies with up to \$500,000 in sales. The pilot has helped identify potential improvements in the product, and a national roll-out is planned in fiscal 2018.
- For more complex needs requiring unconventional determinants of credit risk, BDC provides higher-risk solutions such as cash flow, mezzanine and quasi-equity financing (page 46).
- BDC supports technology businesses in the cloud computing space and other subscription-based revenue companies. It has adapted its lending criteria to better reflect their development cycle, which requires them to make upfront investments before benefitting from recurring revenues.
- BDC offers advisory services to help firms explore innovative business models, better leverage technology, gain a competitive edge, and improve their web presence and online sales.
- BDC partners with Communitech, an industry-led innovation hub, to help tech entrepreneurs start and grow successful businesses. A dedicated BDC employee is located in BDC's lab at Communitech to take the pulse of tech entrepreneurs. In addition to providing educational content on topics of interest to the tech community, such as financial literacy, BDC is using its presence at the heart of the hub to experiment with new approaches and products that could better meet the financing and advisory needs of tech firms. For example, BDC might consider stretching the boundaries of traditional lending so that tech companies can leverage the value of intellectual property to secure financing.

BDC pays particular attention to pivotal technology areas, such as **cleantech** and **artificial intelligence (AI)**.

## Cleantech

With more than 800 companies employing 50,000 people, the fast-growing Canadian cleantech industry is an important contributor to a high-skill, high-wage knowledge-based economy. However, compared to companies in other technology sectors, cleantech firms generally have longer-than-average technology prove-out cycles and face more market entry barriers, such as high capital requirements to develop, prove and commercialize their technology. In addition, a limited pool of institutional investors limits the supply of risk capital available to fuel their growth.

Based on BDC's discussions with cleantech firms, it is clear that finding the necessary financial resources to grow is a fundamental challenge—one that BDC remains committed to addressing to help position Canada as a leader in the global clean economy. In fact, BDC already provides an array of solutions, including the following:

- term debt, cash flow loans, and mezzanine, quasi-equity and equity solutions
- early- to late-stage VC through its Industrial, Clean and Energy Technology Venture Fund, a major actor in the space
- investments in leading cleantech VC funds
- strategic relationships with cleantech-focused accelerators and direct investments in their top graduating companies
- syndicated transactions for renewable energy projects with a cleantech component
- close collaboration with federal partners in the Cleantech Working Group and the Clean Growth Hub to provide better coordinated support

Recognizing the importance of giving high-potential, innovative cleantech firms access to financing, the federal government asked BDC to further support the growth and expansion of future Canadian global cleantech champions. Budget 2017 allocated \$600 million in new capital<sup>1</sup> to BDC to be invested using expanded risk criteria to help selected cleantech firms overcome barriers to scale and unlock other sources of financing.

To deliver on this mandate, BDC developed the **Cleantech Scale Up Initiative** and established a new business line with dedicated expertise and resources to accomplish the mandate's policy objectives and reflect its risk tolerance.

<sup>1</sup> In addition to the \$100 million in financing linked to BDC's planned activities and existing capital as per its Corporate Plan 2017–18 to 2021–22.

The **objective of the Cleantech Initiative** is to help build globally competitive Canadian cleantech firms<sup>2</sup> and a long-term commercially sustainable cleantech industry that will, over time, be able to attract the necessary private sector capital investments to grow. It places a greater emphasis on higher-risk transactions while balancing the need to demonstrate commercial viability and portfolio sustainability.

Its **target market** is high-potential firms that have sufficiently validated technology and strong commercial potential. Targeted firms have the following characteristics:

- a stage-appropriate technology or product that has been validated or demonstrated in a commercially representative environment
- a technology or product that demonstrates commercial traction, significant revenue growth potential and interest from strategic partners
- a clear pathway to profitability and financial sustainability
- the potential and ambition to scale beyond \$100 million in annual revenues
- the management capability to execute the firm's business plan and commercialization strategy

BDC takes on higher risk under the initiative than with its existing portfolios, understanding that the risk profile of cleantech companies and the sector as a whole involves significant uncertainty and volatility.

BDC has also allocated \$60 million of the \$600 million in new capital to invest in cleantech VC funds with a similar risk outlook.

In addition to providing financial resources, BDC integrates its proven expertise in advisory services to help the management of these cleantech companies identify and tackle pain points beyond financing, such as growth plans, productivity and talent issues.

In this way, BDC anticipates providing comprehensive access to financing and other resources that currently inhibit cleantech companies from achieving scale, while increasing the participation of financial institutions and institutional investors in the sector.

<sup>2</sup> Cleantech firms are defined as firms predominantly engaged in the development, marketing and/or use of their proprietary technology to deliver products or services that simultaneously (a) improve operational performance, productivity, or efficiency and (b) reduce inputs, energy consumption, waste, or environmental pollution.

## Artificial intelligence

AI is transforming our society and BDC believes it will be a cornerstone of Canada's future growth. BDC is supporting this space in many ways, notably by helping AI innovators drive R&D and take their disruptive products to market through VC investments. BDC has already invested in 45 companies where AI is a core business function. These initial investments total close to \$92 million. As a true development bank, BDC is also helping develop a strong and vibrant AI ecosystem through strategic partnerships.

Some examples include the following.

→ Alongside private sector partners, BDC has co-founded the NextAI initiative, which brings together talent, entrepreneurs, corporates and governments to bridge the gap between academic centres of excellence and the commercial application of AI. In addition to providing global learning and networking opportunities, the program provides non-dilutive seed capital, expert

advice, and sector-specific tools and technology platforms to prepare its 20 annual program participants to market AI solutions.

- BDC has long-standing relations with funds that make AI a predominant investment focus, such as Georgian, White Star and Real Ventures
- BDC has a working relationship with Creative Destruction Lab to pair start-up founders with experienced technology entrepreneurs
- BDC Invested in Element AI—the largest series A funding round in Canada—alongside international investors, such as Data Collective and Tencent

BDC is also looking into the adoption of AI applications to enhance its efficiency and its ability to have greater impact on more entrepreneurs.

## Tailoring support to other innovative sectors

### Aerospace sector

Aerospace SMEs need to innovate to participate in global supply chains and grow global market share. They also face the financial burden of high development costs and very long production periods. Over the years, BDC has developed a unique approach to supporting this significant sub-sector of the manufacturing industry. BDC's commitments to aerospace SMEs have increased by 98% since fiscal 2012. Its approach includes the following:

- providing tailored, patient and flexible financing solutions based on its deep knowledge of the industry to support the development of niche products and productivity enhancements.
- helping firms increase scale and global reach, notably through mergers, acquisitions and equity investments.
- helping SMEs diversify their customer base and integrate into global supply chains, notably by collaborating with government and industry stakeholders to create synergies.
- providing high-value advice on a variety of topics, notably on the development and execution of strategic plans and innovation strategies.

### Automotive sector

The Canadian automotive sector and its supply chain are concentrated mainly in Ontario, which is home to production facilities of five important automotive original equipment manufacturers. BDC's workforce in the region supports automotive SME investments in innovation. SMEs must make these investments to mitigate skilled labour shortages, improve productivity and remain competitive in a sector that is evolving to meet changing environmental, safety and communication standards. BDC's financing and expert advice provide means for SMEs to advance to Manufacturing 4.0 (which includes areas such as automation, cloud computing and the Internet of things) and improve operational efficiency, helping them realize their growth and expansion strategies.



**Yves and Jean Proteau**  
Co-presidents  
APN

APN is a manufacturer of complex aerospace parts that is embracing the shift to Manufacturing 4.0. The systems that APN has adopted make it possible to monitor equipment performance in real time and maximize productivity. Yves and Jean Proteau regularly give seminars and showcase their factories to entice peers to make the transition. BDC supports APN in this process and has financed equipment and assets to help the company make the shift, realize acquisitions and grow.

## BDC Capital VC footprint

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

- has over 30 years of experience in providing patient investment and value-added support
- is Canada's largest and most active early-stage technology investor
- backs approximately 600 companies through direct and indirect investments
- is a limited partner in independent private VC funds and funds of funds, representing 63% of funds actively investing in Canada
- collaborates with accelerators focused on speeding up the path from proof of concept to sales
- manages two shareholder initiatives: VCAP and VCCI
- leveraged \$6.06 from external investors for every \$1 BDC invested in VC in fiscal 2017

## A key Canadian VC player

The government's Innovation and Skills Plan puts great emphasis on growing innovative technology-driven Canadian firms to position Canada as a nation of innovators. A vibrant Canadian VC ecosystem is an important means to reach this goal. As Canada's largest and most active VC investor, BDC is a key enabler. Its vision is to help make Canadian VC a financially viable and attractive asset class for private sector investors to help create and grow successful and innovative technology businesses by providing capital and value-added support. BDC also seeks to increase women's participation in technology ventures (details on page 18).

The industry has evolved and matured considerably in recent years with a 113% increase in total dollars invested over the last five years. In 2016 alone, \$3.2 billion was invested—the most since 2002—and Canadian VC funds raised \$1.6 billion. VCAP has successfully attracted significant private sector investors to Canadian VC, including a new generation of fund investors such as high net worth individuals and some corporates. Building on the success of VCAP, the federal government asked BDC to manage VCCI, a follow-up program aimed at ensuring an ongoing supply of liquidity to the asset class. The industry also benefits from the scaling of several funds and higher investment returns.

However, BDC research and analysis show the following:

- The average deal size has not increased as rapidly as in other countries and the exit landscape remains difficult.
- The average VC fund size is also smaller, most being suboptimal.
- Gaps remain in later stage VC investments.
- 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—particularly among corporates—has improved but is still below the level needed to make the industry self-sustainable.

These gaps inhibit the successful scaling of technology companies in Canada. To respond to evolving Canadian VC market conditions and needs, BDC is evolving its approach to maximize its impact on the sector. The revised approach does not modify the total amount of VC disbursed, as overall activity levels for the planning period are expected to remain similar to the levels anticipated in last year's plan.



As a strategic partner in the commercialization of technology and a catalyst for the Canadian VC industry, BDC's approach continues to revolve around the following elements, which ensure continuity in how it serves the market over time:

- investing in high-performing VC funds to help them scale, support the development of the next generation of Canadian fund managers and demonstrate the viability of the sector to attract private sector capital
- directly investing in promising tech companies in sectors that are strategic to the Canadian economy to help them reach scale
- providing financial and non-financial support to the VC ecosystem to create synergies and connections among local and global players

### Direct investing strategy

Since 2012, BDC has been managing three direct investment funds in the areas of information technology (IT); healthcare; and industrial, clean and energy technology (ICE). These operate on the same principles as private sector funds, and have supported the development of 105 innovative companies while generating positive returns. In response to market demand, BDC allocated an additional \$150 million to create a second IT fund in fiscal 2016 and \$135 million for its second ICE fund in fiscal 2017.

As these funds continue to deploy their capital, BDC is working with partners to determine how to further refine its approach to best respond to evolving VC market needs. The design of this new approach will ensure both the market and existing portfolio companies continue to receive adequate levels of support at all times.

One of the objectives of the evolving approach is to enhance BDC's ability to invest in businesses emerging from superclusters. As the Canadian economy evolves and sectors important to its growth shift, BDC will have more flexibility to meet these changing needs.

Another component of BDC's direct investing strategy is its **co-investment initiative**, whereby BDC is able to leverage the large number of indirect relationships it has via its fund investments. BDC invests in a select few larger and rapidly growing technology companies alongside its private sector-led indirect fund partners. This allows BDC to specifically address the need of late-stage capital for the best technology companies; increase available funding in emerging sectors; and balance early-stage capital with greater late-stage domestic VC funding.



**Clarissa Desjardins**  
Founder & CEO  
Clementia Pharmaceuticals

Dr. Desjardins founded the biopharmaceutical clinical trial company Clementia in 2011 to develop and commercialize treatments for people living with rare diseases. As a founding investor, BDC Capital accompanied Clementia in its growth journey. The innovative company has become a strong player in its field and recently completed an IPO on NASDAQ.

BDC is also a leader in reinforcing the early-stage innovation ecosystem and filling the gap in seed funding with **strategic investments** in other ecosystem-building activities. One such initiative is BDC's work with a select group of accelerators to identify and invest in top venture start-ups.

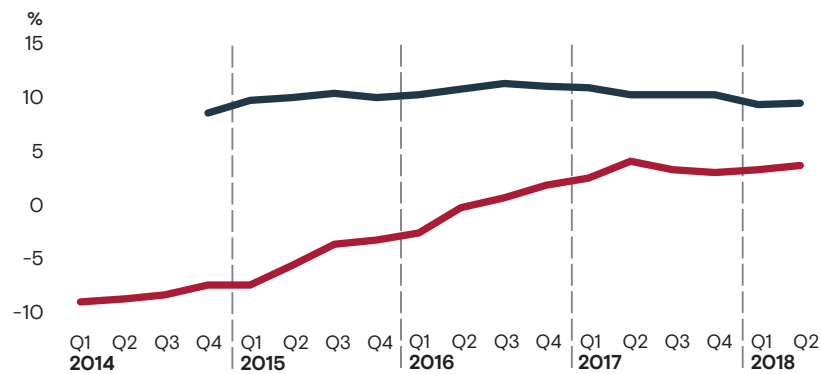
### Indirect investing strategy

The goal of BDC's indirect investing strategy is to help create a thriving ecosystem of high-performing fund managers, while generating positive results. To achieve this mandate, BDC supports a mix of emerging and established managers, and focuses on helping top-performing funds evolve into globally competitive mature funds over time. BDC indirectly supports 566 tech firms through investments in close to 65 funds. The performance of BDC's own portfolio of fund investments—a good proxy for Canadian industry performance—has improved significantly in recent years, closing the gap with the more mature U.S. VC industry.

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

April 2013 to September 2017

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



Over the planning period, BDC will continue to drive the development of the Canadian fund manager landscape by supporting the top-performing managers on their subsequent fundraises, giving them access to the capital they need to adequately address the scaling gap in Canada. In addition, BDC will continue to support new emerging managers at similar levels to what it has traditionally done.

## 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 help accelerate the industry's scaling to the next level and improve outcomes from venture investments. These value-added initiatives include the following.

- BDC is strengthening innovation hubs, enabling the emergence of new technology firms, mentoring entrepreneurs and improving their chances of commercialization success by working with accelerators focused on speeding up the path from proof of concept to sales.

### Supporting Canadian innovators by enabling federal government initiatives in VC

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 and VCCI play the critical role for which they were designed.

#### Venture Capital Action Plan

Launched in 2013, VCAP helped create a vibrant and sustainable VC ecosystem in Canada by increasing available capital for promising innovative Canadian start-ups while supporting the ecosystem. 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 VC raised under VCAP to \$1.4 billion.

VCAP is showing early signs of success, with the current aggregate market value of investments above costs and some return of capital to both private and government investors through direct (co-investment) exits. As at December 30, 2017, 28 Canadian VC funds had received \$837 million in commitments under VCAP. The most recent annual data (December 31, 2016) show that 197 Canadian companies received a total of \$663 million, with more expected in the coming years.

#### Venture Capital Catalyst Initiative

To further increase the availability of late-stage VC for Canadian entrepreneurs, Budget 2017 made available an additional \$400 million for VCCI, which will be used to leverage private capital up to a total pool of \$1.5 billion. The program also aims at enhancing diversity and addressing gender balance in the VC industry. BDC, in collaboration with the federal government, conducted consultations on program goals and design with more than 115 industry stakeholders across Canada.

VCCI will allocate \$350 million (stream 1) to private sector-led funds of funds that will seek to maximize returns through diversified investments, support skilled VC funds and attract substantial private sector capital. An additional \$50 million (stream 2) will be allocated for proposals in areas that can provide a financial return to investors, but would not otherwise be addressed by the first stream. Applicants under stream 2 should have strategies focused on supporting underrepresented groups such as women or diverse fund management teams and entrepreneurs, or emerging regions and sectors.

With the design finalized, the program was launched in December 2017 and applicant selection will take place in early 2018.

- BDC is 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. BDC uses these relationships to help entrepreneurs develop a global network, focus on commercialization, and connect with potential investors, clients and acquirers.
- BDC is publishing research and opinions on the VC market, such as a June 2017 report on the challenges and opportunities of Canada's VC market.
- BDC is facilitating peer-to-peer meetings or discussions with industry stakeholders for optimal collaboration and alignment.
- BDC is developing training materials for specific stakeholders such as VC fund managers. For example, under its **FUNDamentals Principals** seminar series, BDC offers VC fund managers opportunities to learn about best practices in fund management from world experts.
- In fiscal 2018, BDC is launching **GP Academy**, an in-depth learning program to bolster Canadian fund manager capabilities. This program, developed with the Kauffman Fellow Society—a California-based, world-leading venture education organization—offers intensive training sessions in core operational and management issues. A first cohort of 11 fund managers is currently in the program and another is scheduled to start in fiscal 2019.
- BDC is reaching institutional and corporate investors with its **Corporate Innovation and Venturing program** to highlight opportunities for corporate venturing in Canada's ecosystem. The first Canadian Corporate Innovation Summit held in April 2017 launched the program and brought together a multi-sector roster of senior managers of Canadian corporations, international leaders in corporate venturing, university representatives and key government officials. Additional activities with a regional/sector focus are being planned.

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

Technological advances, customer expectations and, especially, globalization have increased the need for higher productivity. ICT adoption is an important enabler of business productivity. A BDC report indicates that manufacturers that have adopted digital technologies have increased productivity, lowered costs and improved product quality. In fact, they are almost twice as likely as non-adopters to project annual revenue growth of 10% or more over the next three years.<sup>1</sup> It can, however, be difficult for SMEs with limited money, expertise and time to take advantage of technology-related opportunities. BDC can help them assess their technology needs, and select and purchase technology solutions aligned with their business needs.

With its advisory solutions to enhance operational efficiency, BDC can also help entrepreneurs adopt a smarter approach to operations, quickly identifying ways to 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 companies do the following:

- compare their productivity with that of other Canadian businesses using a unique online tool
- isolate the main causes of resource under-utilization in operations
- define performance indicators and objectives
- implement best practices for improving performance, streamlining processes and reducing costs
- attain quality management standards, such as ISO

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 avoid compromising cash flow needed for daily operations while investing in the following:

- new technology, including ICT (hardware, software)
- R&D, products and processes
- state-of-the-art infrastructure
- equipment and machinery

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<sup>1</sup> BDC, [\*Industry 4.0: The New Industrial Revolution\*](#), May 2017.

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

### BDC recently:

- evolved its partnership with Communitech to provide educational content and experiment with new approaches and products that could better meet the financing and advisory needs of technology firms
- established a new business line to deliver its Cleantech Scale Up Initiative
- helped design and launch VCCI
- launched GP Academy, an in-depth learning program to bolster Canadian fund manager capabilities

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

- refreshing its strategy to support technology SMEs and continuing to support pivotal technology areas such as AI and aerospace
- delivering on its commitment to provide \$600 million by fiscal 2022 to help build globally competitive Canadian cleantech firms
- investigating the adoption of AI applications to enhance efficiency and BDC's ability to have an impact on entrepreneurs
- assessing VC market gaps and adapting its activities to evolving needs, through activities such as the following:
  - helping to develop Canadian fund managers and supporting emerging fund managers with domain expertise
  - better supporting sectors strategic to the Canadian economy and attracting additional third-party capital
  - making investments and carrying out non-investment activities in the VC market to help high-potential firms scale up
  - investing in at-scale funds
  - informing corporates and creating opportunities for them to invest in Canadian ventures





## Championing SME growth and international expansion

While a BDC ViewPoints panel survey<sup>1</sup> shows that 91% of BDC clients who responded considered the growth of their business to be important, Canadian firms have difficulty scaling up. A BDC study<sup>2</sup> reveals that very few small businesses grow to have at least 100 employees and only 2% of mid-sized firms succeed in becoming large businesses, exceeding the 500-employee mark. Those more likely to become large businesses are usually already more productive than their competitors, invest more in their fixed assets, and sell outside their local market. To help firms overcome the growth challenge, BDC has a tailored offering geared toward firms with ambition to grow.

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 and Skills Plan.

### 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 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.

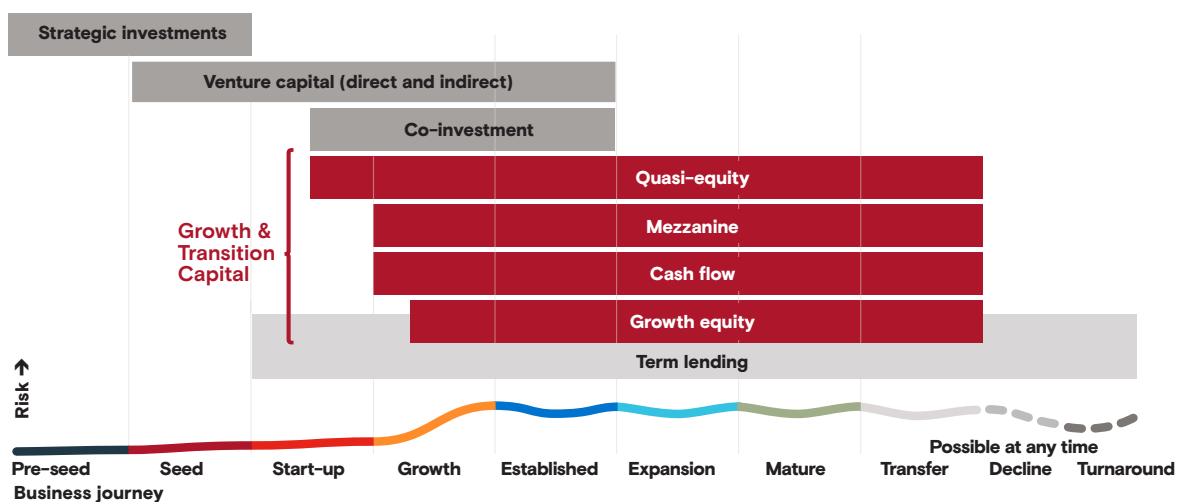
As new ventures grow and mature, BDC offers term lending to help entrepreneurs accelerate growth, develop new products, hire and retain employees, and expand to new markets. It can also help firms buy equipment, acquire land and buildings, expand or renovate existing premises, and invest in ICT.

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<sup>1</sup> The panel includes more than 7,500 business professionals and entrepreneurs, including more than 2,500 BDC clients, who have agreed to share their expertise and opinions regarding the reality of SMEs in today's economic landscape. Panellists are asked to complete online surveys a few times a year.

<sup>2</sup> BDC, [\*The Scale Up Challenge: How Are Canadian Companies Performing?\*](#), September 2016.

## BDC's seamless spectrum of support for SME growth



### Providing capital for growth and transition

As businesses mature, their needs change. They are often looking for more patient funding to help them grow while limiting the dilution of share capital. In addition, investment patterns of Canadian businesses are shifting from tangible to intangible assets, which make it harder to use traditional financing to meet their growth needs. BDC recently committed \$1.8 billion in growth capital over five years to accelerate support for asset-light high-growth Canadian SMEs and increase their innovation, productivity and globalization rate. This funding includes \$250 million in growth equity and \$900 million to invest in business transitions.

To meet the needs of these companies, BDC provides the following 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 repayments are based on company performance, helping companies with an uneven earnings history or firms that will reach profitability in the near future

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

Unmet demand for equity still exists for SMEs—particularly high-growth firms<sup>1</sup>—in later stages of growth. BDC addresses this demand with its **Growth equity solution**, through which it invests 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. Since fiscal 2014, BDC has concluded 28 such transactions totalling \$105 million (as at December 2017). 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 that share BDC's objectives.

At the far end of the business journey comes the transition period. A BDC survey<sup>2</sup> of more than 2,500 entrepreneurs reveals that 49% of them are planning to sell their business, regardless of the size, over the next five years, mostly because of retirement. The proportion of business owners with 20 employees or more intending to sell their business is only slightly lower at 44%. They are usually better prepared for this transition, are more willing to grow, and have better financial reporting standards than smaller firms. However, they still need to make the right decisions to maximize the value of their businesses.

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. BDC recently committed \$900 million to investing in business transitions. Typical **transition 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. These solutions also help Canadian entrepreneurs acquire companies so that they remain in Canadian hands.



**Gurmit Dhaliwal**  
CEO  
Celayix Software

Celayix is a high-growth human resources software firm that has been experiencing 20% to 30% annual growth since 2011. Gurmit Dhaliwal turned to BDC for loans to help sustain his company's growth while avoiding the ownership dilution that comes with equity financing. Working with BDC has allowed Dhaliwal to protect his cash flow while he grows his business. He says this has helped him focus on his company without having to please investors.

<sup>1</sup> High-growth firms have annualized sales growth greater than 20% per year over a three-year period. They represent about 31% of clients in the Growth & Transition portfolio.

<sup>2</sup> BDC, [The Coming Wave of Business Transitions in Canada](#), September 2017.

Based on extensive research, BDC found that high-impact firms share a number of challenges at predictable points along their growth paths, including the need for financing and for strategic advice to help them scale up, improve productivity, innovate and expand internationally.

## Tailored support for high-impact firms

In fiscal 2016, BDC began implementing its **Growth Driver Program** to help high-impact Canadian companies and their leaders reach new heights. 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. They grow more quickly than their peers and have a management team that exhibits higher ambition and higher risk tolerance than their peers.

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

BDC is continuing to refine its Growth Driver approach based on the learnings being gathered as the first participating firms go through the two- to three-year journey. The program 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 entrepreneurs do the following:

- clarify and select optimal business growth avenues
- create a strategic plan to pursue the growth avenues
- develop a financing thesis to support the growth plan

## Accelerated Growth Service (AGS)

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<sup>1</sup> 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. With 150 SMEs benefitting from the service in fiscal 2017, AGS is confident

that it will reach its goal to serve 1,000 high-potential firms over the next few years.

With its dedicated resources, BDC continues to play a leadership role in refining the AGS strategy and vision, while continuing to find synergies among participating organizations and operationalizing the concept so that the initiative is 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.

<sup>1</sup> Innovation, Science and Economic Development Canada, Global Affairs Canada, Export Development Canada, National Research Council–Industrial Research Assistance Program, regional development agencies, and BDC.

- implement, execute and govern the growth plan
- develop their leadership skills to grow themselves and the company
- receive ongoing coaching and mentorship from a trusted advisor

BDC also develops educational content for high-impact firms. It recently held its first Leadership and Growth Management Retreat, a four-part eight-day program for CEOs of the Growth Driver Program, presented in conjunction with the Ivey School of Business. Additional learning programs are being developed to target the needs and issues of high-impact firms, notably for management teams supporting CEOs.

With close to 100 firms in the program so far, BDC will continue to target potential participants over the planning horizon.

## Supporting international expansion to develop Canadian global champions

It is more important than ever for Canadian entrepreneurs to succeed in international markets. A BDC report<sup>1</sup> based on a survey of more than 700 Canadian SMEs found that the most successful exporters share three key attributes: they see exporting as critical to overall success, they do their homework before taking on the foreign competition, and they put resources behind their international expansion strategy. Firms that apply all three points have tended to record higher annual international sales and profit growth than those that do not.

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. BDC encourages and supports entrepreneurs throughout their export journey to increase their chances of a successful expansion.

Through its advisory services, BDC helps SMEs determine whether they are ready to internationalize, find opportunities to export, identify which markets best suit them and enter new markets with a solid plan. BDC also provides working capital and asset financing to Canadian SMEs with internationalization projects. Over the planning period, work will continue to refine BDC's portfolio of solutions to support international expansion.

BDC takes an informed and collaborative approach to international markets by working with its domestic and international networks, including fellow members of the Montreal Group, a global forum of state-supported, SME-focused development



**Wayne Arsenault**  
CEO  
Corey Nutrition

Corey Nutrition is a highly successful and innovative niche player offering premium brands in the pet food and aqua feed markets. To drive and sustain strong momentum, the family-owned company is undergoing a major shift in its business model.

A participant in BDC's Growth Driver Program, Wayne Arsenault was assigned an executive advisor who leveraged an analyst support team. They worked closely with Wayne and senior management to generate and focus on the right growth strategies.

Among many avenues explored, the company looked at the potential for growth in China, Mexico and the U.S.; multiple new product lines; nutrition innovations; and alternative sales strategies.

<sup>1</sup> BDC, [Exporting: A Key Driver of SME Growth and Profits](#), April 2017.

banks spearheaded by BDC. In fiscal 2018, the Montreal Group leveraged its members' global network to offer a client mission in Helsinki, Finland, for member countries' entrepreneurs to visit Finnish tier-one companies, network, and exploit business-to-business opportunities. Other internationally minded partners include QG100, OG100 and the Toronto Board of Trade.

BDC's international expansion offering complements the activities of Export Development Canada and Global Affairs Canada. The organizations work closely together to maximize their impact on Canadian SMEs. For example, in fiscal 2017, they developed and launched the Tariff Finder Tool to help SMEs make internationalization decisions and leverage opportunities generated by Canada's free trade agreements.

**Global Affairs Canada**—BDC collaborates with the Trade Commissioner Service to make its offering known to SMEs qualified under the CanExport program. The organizations work together to provide access to financial and advisory resources for SMEs seeking to develop new export opportunities and markets. The two organizations are also working together to explore ways for SMEs to benefit from trade agreements, notably with the European Union.

**Export Development Canada**—A formal collaboration agreement with Export Development Canada, in place since 2011, highlights their complementarity and cooperation in terms of sharing their offerings with clients, sharing intelligence on entrepreneurs' needs and referring clients. In fiscal 2017, BDC and Export Development Canada referred more than 100 SMEs to each other to better meet their needs.

To maximize synergies, BDC and Export Development Canada are continuing to develop a coordinated approach to improving SME international expansion capabilities. The goal is to increase the number of Canadian exporters. This approach includes the following activities:

- exploring ways to offer a seamless experience for SMEs through a unique online window presenting both organizations' services, including educative content
- providing opportunities for SMEs to connect with foreign corporates and participate in global supply chains
- exploring ways to take on more risk related to the tech industry by providing a joint facility
- coordinating market research activities
- increasing collaboration on external events and conferences
- increasing cross-training of employees—through development opportunities such as secondments, for instance



## Summary: Championing SME growth and international expansion

### BDC recently:

- committed \$1.8 billion over five years to support asset-light high-growth firms, including \$250 million in growth equity and \$900 million to invest in business transitions
- continued to deploy and refine its Growth Driver Program
- collaborated with Global Affairs Canada to increase access to financing and advice for SMEs qualified for the CanExport program
- continued to develop a coordinated approach with Export Development Canada to improve SME export capabilities
- continued to work with AGS partners to ensure the success of the initiative

### 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
- monitoring the success of graduates from the Growth Driver Program to refine its approach
- refining its portfolio of solutions to support ambitious firms' international expansion, and explore alternative ways of collaborating with Export Development Canada and Global Affairs Canada to help SMEs enter and succeed in foreign markets



## 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 a combination of advice, investment and financial support that complements the private sector offering. BDC pays particular attention to certain demographics, such as women and immigrant entrepreneurs, and to certain business types, such as small businesses and those with limited tangible collateral. To reach as many underserved SMEs as possible, BDC partners with public and private sector organizations. It 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 limited market diversification. With a special focus on firms that have the potential to affect 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 73 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 educative 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 can 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.

## BDC's performance measures

Short term (1 year)		Actual fiscal 2017	Target fiscal 2018	Estimate fiscal 2018	Target fiscal 2019
■ Provide financing to small businesses	# of acceptances <sup>1</sup>	12,948	11,700	12,000	12,300
■ Provide asset-light financing	\$ of acceptances, GTC and BDC Financing unsecured loans (\$ in millions)	1,249	1,240	1,360	1,400
■ Support Indigenous entrepreneurs	# of clients identified as Indigenous	500	550	600	650
■ Make it easy for clients to do business with BDC	% of very satisfied clients <sup>2</sup>	66	65	66	66
■ Work in partnership to extend reach and provide support to entrepreneurs	# of transactions done in partnership <sup>3</sup>	1,578	n/a	1,666	1,750
	# of indirect clients <sup>4</sup>	9,016	8,000	9,975	10,500
■ Provide advisory services to accelerate growth, innovation and productivity	# of mandates for BDC Advisory Services <sup>5</sup>	1,800	1,875	1,500	1,655
■ Support Canada's most promising firms and enable them to contribute fully to the economy	% of \$ of acceptances for high-growth firms, GTC	36	35	38	38

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.

<sup>1</sup> BDC Financing and Growth & Transition Capital loans with a commitment size of ≤ \$750,000. Fiscal 2017 was an exceptional year with the demand for smaller loans greater than anticipated. The fiscal 2018 and fiscal 2019 targets are lower than the actual for fiscal 2017 results, reflecting an expected normalization of activities.

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

<sup>3</sup> Including transactions of more than \$100,000 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, and including Futurpreneur. This measure, as defined above, is new and therefore there was no fiscal 2018 target set.

<sup>4</sup> Excluding clients served by ATB Financial. The number of indirect clients is difficult to forecast given that a new partnership with an independent financing company would lead to a significant increase in the number of indirect clients, just as the end of a partnership would lead to a significant decrease. This explains why the fiscal 2018 target is lower than both the fiscal 2017 actual and the fiscal 2018 estimate.

<sup>5</sup> Includes mandates for high-impact firms, international expansion and consulting. BDC Advisory Services refined its operating model in fiscal 2018 to better cater to the unique needs of SMEs based on their size and complexity. This resulted in fewer mandates delivered than expected, as employees adapted to the changes. This explains why the fiscal 2018 estimate is lower than the fiscal 2018 target. The fiscal 2019 target reflects more realistic expectations.

Medium term (3 years)		Actual fiscal 2017	Estimate fiscal 2018	3-year target (T)
■ Support women-led tech firms	\$ authorized to women in tech (VC) (\$ in millions, cumulative to fiscal 2020)	5.9	18	T2020 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)	1,840	3,600	T2020 8,800
■ Help entrepreneurs take advantage of global opportunities	# of clients who export <sup>6</sup>	5,941	6,700	T2020 6,350
■ Support women entrepreneurs	\$ authorized, GTC and BDC Financing, for majority women-owned businesses, cumulative fiscal 2019 to fiscal 2021 (\$ in millions)	369	340	T2021 1,400

Long term (5 years)		Actual fiscal 2017	Estimate fiscal 2018	5-year target (T)
■ Fulfill its complementary role by serving underserved entrepreneurs	% of BDC Financing portfolio that is sub-investment grade <sup>7</sup>	93	93	T2022 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>8</sup>	89	89	T2022 Maintain minimum of 89
■ Help restore the VC asset class to profitability to attract private sector investors	BDC direct VC funds total value to paid-in capital (TVPI) <sup>9</sup>	1.25	1.25	T2022 1.25 or higher
■ Accelerate entrepreneurs' competitiveness	Results of BDC's Impact Study <sup>10</sup>	n/a	n/a	T2022 BDC has a positive impact on revenue growth
■ Increase the amount of capital available to Canada's promising cleantech firms	\$ accepted under the Cleantech Scale Up Initiative, cumulative fiscal 2018 to fiscal 2022 (\$ in millions) <sup>11</sup>	n/a	n/a	T2022 600

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.

<sup>6</sup> The target for this measure was approved in fiscal 2017 for a 3-year period ending in fiscal 2020. As such, despite an estimated increase in the number of clients who export in fiscal 2018, the fiscal 2020 target remains unchanged. It will be revised after the 3-year period is over.

<sup>7</sup> Sub-investment grade is rated BB+ or less.

<sup>8</sup> Source: BDC's ViewPoints survey.

<sup>9</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). This figure also includes subsequent funds (IT II, Healthcare II and ICE II).

<sup>10</sup> Source: Statistics Canada, BDC: [Measuring BDC's impact on its clients \(2008-2012\)](#), December 2016.

<sup>11</sup> Includes BDC Financing, BDC Growth & Transition Capital, and VC.

# Progress on major initiatives

## **Develop and implement the Cleantech Scale Up Initiative** (page 35):

- BDC launched the Cleantech Initiative to deliver the \$600 million in additional capital entrusted to BDC by the federal government to help build globally competitive Canadian cleantech firms and a long-term, commercially sustainable cleantech industry that can attract significant private capital investment.
- BDC established a new business line with dedicated expertise and resources.

## **Develop and implement VCCI** (page 41):

- In collaboration with the federal government, BDC conducted consultations on program goals and design with more than 115 industry stakeholders across Canada
- The program was launched in December 2017 and applicant selection will take place in early 2018.

## **Provide increased assistance to women-owned firms** (page 18):

- BDC undertook an accessibility study that demonstrated, among other things, that WEs' awareness of BDC could be improved.
- Ahead of schedule, BDC surpassed its goal to commit \$700 million in term lending between fiscal 2016 and fiscal 2018 to majority women-owned businesses. With three months left in its commitment, it has authorized close to \$878 million (December 31, 2017).
- BDC began delivering on its fiscal 2017 announcement to commit \$70 million over five years to support women-led technology firms through direct and indirect VC.
- BDC supports programs, events and initiatives focused on women entrepreneurs.

- BDC has elaborated a plan of action to enhance its impact on WE by further enhancing accessibility of BDC services and setting a new \$1.4 billion financing target over three years, tailoring its approach to address underserved needs, being at the forefront of advancing gender equality in VC and being a thought leader and catalyzing the Canadian women entrepreneur ecosystem.

## **Improve the competitiveness of high-impact firms in Canada** (page 48):

- BDC is executing its Growth Driver Program, launched in fiscal 2016, while continuing to refine the approach, based on the experience of the first participants to go through the journey.
- BDC will continue to target potential participants and expects to enroll more than 200 firms by fiscal 2020.

## **Increase growth capital to address the needs of asset-light high-growth firms** (page 46):

- BDC has committed \$1.8 billion over five years, to support asset-light, high-growth firms, including \$250 million in growth equity and \$900 million to invest in business transitions.

## **Increase access to its services by opening new business centres while optimizing partnerships and marketing** (page 14):

- BDC successfully concluded a four-year initiative to increase its physical presence where entrepreneurs are. It reached its goals to open eight new business centres and 18 new shared offices, and to relocate 27 centres.

## B

## BDC's contribution to Canada's Innovation and Skills Plan

The government's Innovation and Skills Plan requires sustained, multifaceted efforts involving a broad coalition of national, regional and local players. This section highlights BDC's contribution to the following three areas of action:

### People, skills and communities

- helps underserved segments of entrepreneurs, such as youth, Indigenous people, newcomers and social entrepreneurs
- enhances support for majority women-owned businesses and women-led tech firms with earmarked envelopes
- supports the development of business and management skills through its advisory services, online educative content, business-focused events, and many publications
- partners with numerous organizations—such as Start-Up Canada, the National Angel Capital Organization and Futurpreneur Canada—to facilitate entrepreneurial initiatives in Canada
- celebrates and promotes entrepreneurship across Canada, notably with the annual BDC Small Business Week™
- refers companies to Immigration, Refugees and Citizenship Canada's dedicated service channel and Employment and Social Development Canada's Global Talent Stream

### Science, technology, research and commercialization

- supports the innovation ecosystem with its extensive VC footprint (direct and indirect investments and ecosystem-building initiatives)
- finances top venture start-ups from partner accelerators
- manages VCAP and VCCI on behalf of the federal government
- partners with key innovation hub actors—such as Communitech and MaRS Innovation—to create synergies
- finances start-ups and growth-oriented firms in innovation clusters
- provides customized loans to finance SMEs' innovation projects, including R&D
- provides advisory solutions to help firms explore innovative business models, better leverage technology, gain a competitive edge and improve their web presence and online sales
- develops relationships and collaborates with regional development agencies and provincial organizations to help grow world-leading superclusters



## Companies, investment and growth

- provides a full spectrum of growth capital for all stages of a company's life, from creation through to change of ownership
  - supports the growth of innovative companies through its direct VC investments in strategic sectors
  - invests in seed- through late-stage VC funds and co-invests in promising later-stage, VC-backed Canadian technology firms
  - helps build globally competitive Canadian cleantech firms and a long-term commercially sustainable cleantech industry with its Cleantech Scale Up Initiative
  - participates in the Cleantech Working Group and the Clean Growth Hub 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 Growth Driver Program
  - plays a leadership role in the deployment of the Accelerated Growth Services Initiative
  - provides customized financing and advice for innovative businesses operating in globally competitive areas such as the aerospace, automotive, technology, artificial intelligence and fintech sectors
  - provides advisory solutions to help SMEs build management skills, increase revenues, manage their businesses, reduce costs and innovate
-



# External funds supported by BDC Capital

	Pre-seed	Seed	Early venture	Late venture	Growth equity
<b>Energy Cleantech (ECT)</b>		Ecofuel I	Chrysalix Energy III McRock I Yaletown Ventures II	EnerTech Capital IV	
<b>Generalist</b>			Ventures West VIII		
<b>Information and communications technology (ICT)</b>	DMZ Investments I Highline I Young Founders Fund I	Golden Venture Partners II Mistral Venture I II Real Ventures II III IV StandUp Venture I TandemLaunch Ventures I II Vancouver Founder Fund I Venture Newfoundland and Labrador I Version One Ventures I II	Build Ventures I Celtic House IV Garage Capital II Gibraltar Venture Fund I Information Venture Partners II iNovia Fund II III IV (2015) OpenText Enterprise Fund I Plaza Ventures Fund II III Relay Ventures O RHO Canada Ventures II ScaleUp Ventures I Tech Capital II Vanedge Capital I II White Star Capital I II		Georgian Partners Growth Fund II III Novacap III IV Tandem Expansion I VenGrowth V
<b>Life sciences</b>	Hacking Health Accelerator I		Genesys II III Sanderling Ventures VII TVM VII Versant Ventures V	Lumira Capital II IV	Persistence Capital Partners II
<b>Niche</b>		BrandProject I (consumer and retail) Execution Labs I (digital media)	Campfire Capital I (consumer and retail)	Avrio I III (food and agricultural tech)	PRIVEQ III (manufacturing and services) VenGrowth Mezzanine I (manufacturing and services) XPV Water I (water tech)
<b>Fund of funds</b>	<b>Ontario Venture (OVCF)</b> Diversified across stage and sector				

■ Investment period: making new investments

■ Harvesting: follow-on investments only

■ Fully invested: no reserves, proceeds still expected

■ Fully realized: no reserves or expected proceeds



# 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.
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 Credit Union Association (CCUA)	BDC maintains a working relationship with the CCUA, the national forum for the Canadian credit union system. A liaison committee was formed to encourage complementarity and increase communication between senior leaders of both organizations.
Canadian Innovation Exchange (CIX)	BDC sponsors CIX, a leading technology conference where investors, innovative companies, founders and facilitators converge to learn, network, and do deals.
Canadian Manufacturers & Exporters (CME)	BDC is a national partner of CME's Women in Manufacturing working group. It will also be part of a national roadshow, Capital Investment in Manufacturing, in March 2018.
Canadian Technology Accelerators (CTAs)	BDC Capital offers in-kind support to CTAs in San Francisco, Philadelphia, Palo Alto and New York to contribute to 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.
Chartered Professional Accountants Canada (CPA)	CPA offers financial literacy courses for Indigenous and women entrepreneurs, in collaboration with BDC.
Cisco	Cisco has developed an ICT program free of charge for women entrepreneurs. BDC helps promote it and invites clients to be part of it. BDC also partners with Cisco and Junior Achievement Canada to promote entrepreneurship to youth in northern regions.
Community Futures Network of Canada (CFDCs/SADCs)	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.
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.
Elevate TO	BDC sponsors Elevate Toronto, a 3 day tech festival that showcases the best of the Canadian innovation ecosystem and celebrates diversity and inclusion.

## National

Export Development Canada	Collaboration includes a two-way referral system that ensures Canadian companies' access the services of the organization whose competencies best meet their needs. A memorandum of understanding between the two organizations was finalized in 2011.
Federal partners (Accelerated Growth Service)	The following government agencies participate in the Accelerated Growth Service initiative to better serve growing SMEs: Innovation, Science and Economic Development Canada, Global Affairs Canada, Export Development Canada, National Research Council—Industrial Research Assistance Program, regional development agencies (Atlantic Canada Opportunities Agency, Canada Economic Development of Quebec Regions, Canadian Northern Economic Development Agency, FedDev Ontario, FedNor and Western Diversification Canada) and BDC.
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 line of credit to Futurpreneur Canada.
Global Affairs Canada	Close collaboration helps SMEs that want to be or are present in foreign markets. Examples include the partnership on the CanExport program, the co-branding of the Tariff Finder Tool along with Export Development Canada, trade missions for specific priority groups and co-locations across Canada. BDC Capital is also working with the Trade Commissioner Service as part of the Corporate Innovation Program, connecting large Canadian companies to the worldwide innovation ecosystem, and global multinationals to Canadian innovation opportunities.
Indigenous-focused organizations	BDC's Indigenous Business Unit collaborates and sponsors events run by many organizations, including the Waubetek Business Development Corporation, the Baffin Regional Chamber of Commerce, the Nishwabe Aski Development Fund and the Saskatchewan Indian Equity Foundation.
Information and Communications Technology Council	BDC invested in the development of the Digital Adoption Compass, a website designed to help SMEs adopt technology.
National Angel Capital Organization (NACO)	Under its development mandate, BDC Capital works with NACO to strengthen Canada's angel investing community, particularly in regard to angel professional development.
National Research Council—Industrial Research Assistance Program (NRC-IRAP)	BDC works closely with NRC-IRAP's Concierge Service, which is a single access point to help entrepreneurs access support for growth.
Prince's Operation Entrepreneur	BDC is a sponsor of Prince's Operation Entrepreneur, a national program for transitioning Canadian Armed Forces members interested in starting their own business.
ResolveTO	BDC sponsors this event, which brings together the best of young startups and large organizations, to look at innovation, disruption and emerging markets.
SAAS NORTH	Quality entrepreneurs are continuously entering Canada's thriving software as a service (SaaS) ecosystem. SAAS NORTH is Canada's go-to SaaS hub for founders, executives, service providers, investors and their teams. It facilitates networking, knowledge-sharing and access to resources to help entrepreneurs scale up.
Startup Canada	BDC partners with Startup Canada to support the Canadian start-up community. BDC sponsors and attends Startup Canada events across the country.
Startupfest	BDC is Startupfest's main sponsor and hosts two programs: ScaleupFest, designed to help seed and early-stage companies increase their chances of commercialization; and AcceleratorFest, intended to increase the development and knowledge of those who run accelerators across Canada.
TAO Asset Management's Funding Platform for Independent Lenders	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

BC Tech Association	BC Tech (formerly the BCTIA) provides opportunities for tech industry members to collaborate, learn, and grow together. They are dedicated to connecting companies, developing talent, sharing stories, and advocating on behalf of tech companies to keep the industry thriving.
BCTECH Summit	BDC sponsors this convention that explores ways technology is driving cross-industry growth and innovation, and discover what they need to do to emerge as global leaders.
Canadian Northern Economic Development Agency (CanNor)	In addition to providing cross-referrals, the organizations collaborate on round-tables and webinars.
Centre for the North	BDC is a member of the Centre for the North, a collaborative research initiative that brings together senior leaders from Indigenous groups, the public and private sectors, and academia to pool resources and develop a research agenda that addresses northern and Indigenous policy issues.
Entrepreneurs' Organization (EO)—Vancouver Chapter	BDC is a strategic member of this group, which caters to SMEs.
Western Economic Diversification Canada (WD's) Western Innovation Initiative (WINN)	WD refers non-successful applicants of WINN to BDC.
Women's Enterprise Centre—British Columbia (WEC BC)	BDC works closely with WEC BC to increase women entrepreneurs' access to capital and advice.

## Prairies

ATB Financial	BDC has a co-lending partnership with ATB Financial.
Government of Alberta	BDC has signed a letter of intent with the Government of Alberta with the objective of increasing access to VC and enhancing small business innovation and exports in Alberta.
Manitoba Business Start program	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 and PSAC join forces 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 information-sharing.

## Ontario

ACCES Employment	BDC collaborates with ACCES Employment's Entrepreneurship Connections to provide immigrants with knowledge of the Canadian business environment and culture, as well as mentoring opportunities.
Acetech	BDC sponsors this prominent tech organization in the Greater Toronto Area, whose members are CEOs and C-level tech leaders.
Bayview Yards Innovation Centre	Bayview Yards is a dynamic and energized hub that serves as base camp for some of our greatest homegrown technology talent, capabilities and companies.
Communitech Hub	BDC supports this Ontario innovation hub through sponsorships. A dedicated BDC employee is located in Communitech's space to ensure BDC responds to the unique needs of this ecosystem.
Government of Ontario	BDC has signed a memorandum of understanding with the Government of Ontario with the objective of supporting innovation of Ontario SMEs.
Innovators Alliance	BDC has signed an agreement with Innovators Alliance to enhance support to innovative companies in Ontario.
MaRS Innovation	BDC supports this Ontario innovation centre through sponsorships and co-location with BDC's VC group.
OG100	BDC participates in this private group of CEOs from Ontario, which supports the development of global leaders.
Ontario Centres of Excellence (OCE)	OCE helps drive entrepreneurial growth in Ontario. BDC signed a memorandum of understanding to assist OCE's clients through OCE's Voucher for Innovation and Productivity program.
Rise Asset Development	BDC provides funding through the Rise mentorship and coaching program. BDC is supporting people with mental health challenges who are using entrepreneurial projects to succeed.
Toronto Board of Trade	BDC is a partner of the Trade Accelerator Program, aimed at helping SMEs in the Greater Toronto Area overcome barriers to exporting.

## Quebec

Centre de robotique et de vision industrielles (CRVI) and CNRC	BDC and CNRC clients may be referred to the CRVI to benefit from its automation diagnostic. BDC may finance part of the mandate.
Investissement Quebec (IQ)	IQ and BDC partner to complement IQ's financing offer with BDC's operational efficiency mandates and additional financing when needed.
La Ruche and Futurpreneur Canada	BDC has a partnership with La Ruche and Futurpreneur with the objective of promoting the B Corp certification and increasing access to capital in Quebec.
QG100	BDC participates in this private group of Quebec CEOs, which supports the development of global leaders.
Quebec numérique	Québec numérique promotes Quebec City's digital industry. BDC sponsors the event "Web à Québec".
Quebec Technology Association (AQT)	ABDC collaborates with AQT in promoting Quebec's ICT industry companies.
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.
TEC Canada	TEC Canada refers its members to BDC for financing and advisory services



## Atlantic

Atlantic Canada Opportunities Agency (ACOA)	BDC collaborates closely with ACOA to strengthen the relationship and connect employees from both organizations.
Atlantic Tech/Oceantech Strategy	BDC is developing this strategy with the support of regional partners.
Atlantic Venture Forum	The Atlantic Venture Forum provides highly-focused networking opportunities for emerging tech companies to showcase their innovations to corporates that can provide business development opportunities.
Credit Union Atlantic (CUA)	BDC and CUA have signed a memorandum of understanding focused on co-lending. CUA specializes in real estate financing. By partnering, both parties will be able to reach more entrepreneurs, especially in sectors other than real estate.
Government of New Brunswick	BDC and the Government of New Brunswick have signed a letter of intent with a focus on increasing New Brunswick's competitiveness through support for the clusters identified in the Atlantic Growth Strategy, as well as on improving the export performance, succession planning and productivity of New Brunswick SMEs.
Nova Scotia Business Inc. (NSBI)	BDC and NSBI have signed a letter of intent with the objectives of improving export performance, productivity and innovation, and collaborating to build Nova Scotia's global competitiveness through support for clusters identified in the Atlantic Growth Strategy (agri-food, ocean tech and ICT).
Tourism Industry Association of P.E.I. (TIAPEI)	BDC is engaged in ongoing discussions with TIAPEI on ways to help its members succeed in the tourism industry.
UNI Financial Cooperation	BDC has signed a memorandum of understanding with this credit union with the objective of enhancing joint lending for entrepreneurs in New Brunswick.

## International

Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	BDC partners with ADFIAP to gain insight into foreign markets and assist Canadian businesses with their global expansion plans.
Banff Venture Forum	Banff Venture Forum is a Canadian event designed to showcase high-tech companies from across North America, offer insight into key issues within the industry, provide a premium networking opportunity and give companies a chance to learn from investment professionals.
Bpifrance	Bpifrance provides financing for business development in France, with a focus on SMEs and innovative enterprises. BDC and Bpifrance signed a memorandum of understanding in March 2015 to share knowledge and best practices, and to assist entrepreneurs in both countries with global expansion.
Canadian Entrepreneurs of New England (CENE)	CENE's mentors and BDC's executive advisors (from the Growth Driver Program) exchange best practices for mentoring, coaching and accompanying ambitious entrepreneurs as they grow their businesses in Canada and the U.S.
Global Corporate Venturing (GCV)	Based in the UK, GCV is a leading research firm focused on the adoption of innovation investment by multinational corporates. BDC has an ongoing relationship with GCV to reach out to more than 1,500 global firms in its network to connect them to Canadian innovation opportunities
Kauffman Fellows (KF)	BDC Capital works closely with KF, a leading global VC education organization, to deliver GP Academy, a first-of-its-kind program designed to provide Canadian venture fund managers with best practices and resources to accelerate their success.
Latin American Association of Development Financing Institutions (ALIDE)	BDC partners with 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.
Quebec City Conference	BDC is a sponsor of this private, non-profit meeting whose objectives include strengthening the Canadian private market investment ecosystem.

# E Governance

The corporate plan is the centrepiece of the accountability process for Crown corporations adopted by 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 its activities and obtain approval for them.

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.

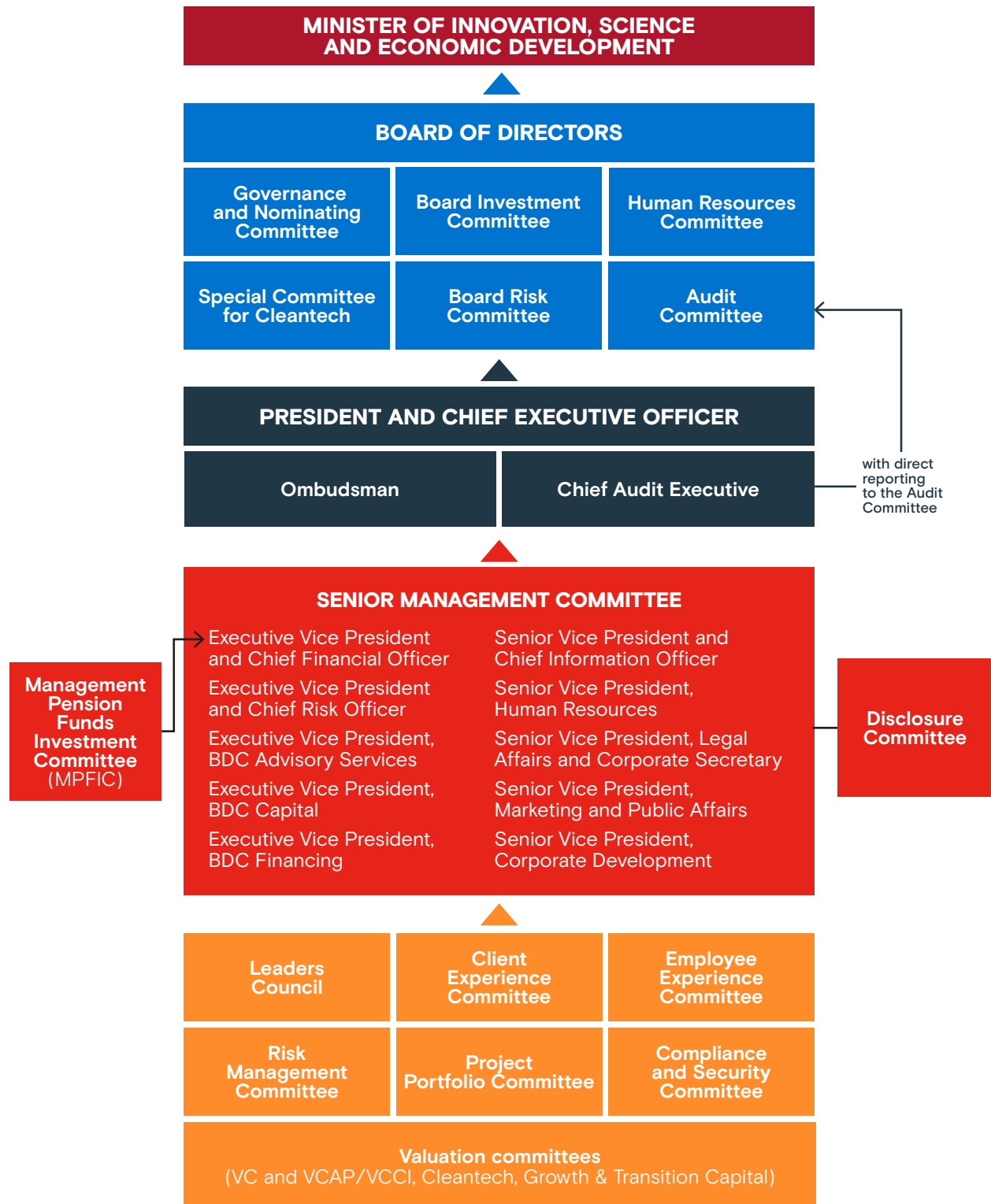
The Board is responsible for the following:

- 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 and 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

### Special Committee for Cleantech

This special committee has been established to assist the Board in overseeing BDC's Cleantech Scale Up Initiative. Its main duties are as follows:

- reviewing the implementation of the Cleantech Scale Up Initiative
- overseeing the performance of the initiative's portfolio
- approving all transactions under the initiative until a delegation of authority to management has been approved by the Board
- reviewing and assessing all risks associated with the initiative and transactions and the management thereof
- reviewing reports on the initiative's activities, portfolio performance, and capital requirements and usage

### Board 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 appraising 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, guard-rails 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:

- 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, guard-rails 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

# Risk management

Consistent with its mandate, BDC generally assumes more risks than a typical financial institution to better support SMEs. However, BDC's strong risk management practices and culture enable BDC to take the risks necessary to fulfill its mandate while ensuring the organization is financially sustainable.

## Enterprise-wide Risk Management Framework

The Risk Management Framework outlines the methodology implemented by BDC to manage the risks inherent in BDC's activities, while ensuring that the outcomes of such risk-taking activities are aligned with BDC's strategy and mandate. It also reinforces a risk management culture across the organization.

### The Risk Appetite Framework and Risk Appetite Statement

The Risk Appetite Framework (RAF) defines BDC's approach to establishing and governing its risk appetite. The RAF is integrated into BDC's strategy development and implementation. It determines core risk principles, which dictate that BDC will only take risks that:

- it understands, can manage, and are aligned with its strategy
- fulfill its mandate to support Canadian SMEs
- are not expected to negatively impact its brand or the shareholder's reputation

The Risk Appetite Statement (RAS) is based on qualitative and quantitative measures that articulate and allow for reporting on the Board and management vision for managing the risks that BDC is willing to accept in executing its mandate. Risk limits provide the outer boundary for an acceptable level of risk.

### The Enterprise Risk Management Policy

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.



### **Risk management accountability**

Risk management is the responsibility of all employees across all businesses, functions and levels. In addition, BDC balances risk ownership with risk oversight and independent assurance by Internal Audit.

BDC's corporate risk management functions are as follows:

- Integrated Risk Management (IRM), which includes portfolio risk management, treasury risk management and enterprise risk management
- Credit and Investment Risk Management (CIRM)
- Operational Risk Management (ORM)

Risk management accountability includes the following elements:

- ensuring risk management principles, policies and corporate directives support the management of risk in compliance with BDC's RAS
- developing tools to measure, analyze and report on these risks
- providing timely reporting on these risks to the organization's risk management committees

### **Enterprise-wide risk management process**

BDC defines risk as the potential for loss or an undesirable outcome adversely affecting the achievement of its mandate and strategic objectives. BDC has established a risk inventory that defines the following categories of risk.

- strategic
- credit and investment
- market and liquidity
- operational and technological
- regulatory and legal compliance
- reputational

### **Cyber risks**

Risks associated with information technology continue to create exposure for all financial institutions relying on a vast technology infrastructure.

Cyber risks refer to the third party use of technologies and/or employee use, or misuse, of technologies that could lead to malicious access, use or distribution of limited or restricted data, disruption of operations, or intentional compromise of BDC's brand. As shown by recent events affecting large organizations, phishing, hacking, infrastructure penetration and leakage of sensitive data by third parties is a broad concern.

BDC ensures the appropriate protection of its client and employee data. A strong control environment includes the establishment of network controls, broad employee awareness through phishing campaigns, training as well as ongoing independent testing of its infrastructure and key systems/applications stability. In addition, BDC has established a training program to enhance incident response management by BDC IT cybersecurity/operations specialists.

BDC's approach to managing risk is based on four pillars of risk management, as illustrated in the following graphic.



## **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) reviewed BDC's risk management and governance practices in 2015.

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 advice 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 lines, followed by consolidated financial results.

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

## BDC Financing

BDC Financing helps improve SME competitiveness by addressing the unmet financing needs of underserved entrepreneurs. It provides term lending to SMEs throughout their business journey. It also collaborates with other financial institutions to increase credit availability in the market through co-lending, syndicated loans and indirect financing.

BDC Financing's activity level is expected to increase in the number of acceptances, from 16,500 in fiscal 2018 to 16,600 in fiscal 2019 (Table 1). This growth, which exceeds last year's forecast, is mainly due to BDC's efforts to make it easier, quicker and more convenient for entrepreneurs to access its services. BDC has invested resources to enhance its delivery model and online platform, and to automate processes, which has helped increase capacity to respond to market needs. The number

of acceptances is also rising due to BDC's additional support for women entrepreneurs and to its now-concluded initiative to increase access to its services by optimizing the number and location of its business centres across Canada.

As shown in Table 2, loan acceptances in dollars are projected to grow from \$6.6 billion in fiscal 2018 to \$6.9 billion in fiscal 2019. Acceptances for asset-backed securities 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. As BDC plays its development role and responds to market demand, total dollars accepted should grow from \$6.7 billion in fiscal 2018 to \$7.2 billion in fiscal 2019.

**Table 1—BDC Financing: Net planned acceptances (#)**  
(includes asset-backed securities)

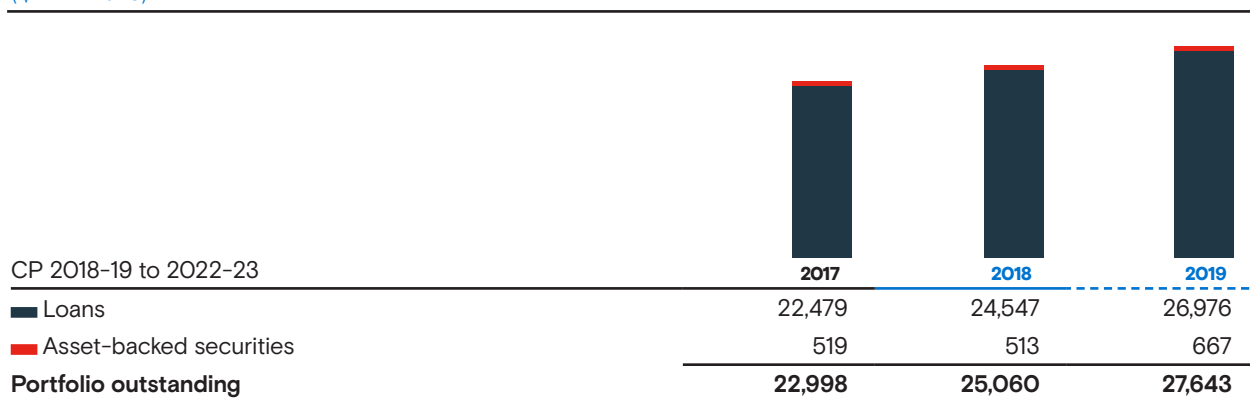
	2017	2018	2019
CP 2018-19 to 2022-23	16,427	16,500	16,650

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

	2017	2018	2019
Loans	6,621	6,640	6,890
Asset-backed securities	140	85	325
<b>Net acceptances total</b>	<b>6,761</b>	<b>6,725</b>	<b>7,215</b>

BDC Financing's efficiency ratio is forecast to improve, reflecting efficiency gains from

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



**Table 4—BDC Financing efficiency ratio**  
(percentage)





BDC Financing's net income, as shown in Table 5, is projected to remain stable at \$578 million in fiscal 2019. Efficiency gains, as well as higher interest income margins resulting from expected increases in market interest rates, should have a positive impact on results. However, the increase in the provision for credit losses, partly explained by the implementation of International Financial Reporting Standard 9 (IFRS 9), is expected to

result in lower forecast profitability compared to last year's projection.

However, it should be noted that IFRS 9 is expected to bring greater volatility in the provision for credit losses. Additional information on IFRS 9 implementation can be found in Appendix I.

**Table 5—BDC Financing: Statement of income**  
(\$ in millions)

	2017	2018	2019
Interest income	1,095	1,274	1,553
Interest expense	75	155	317
<b>Net interest income</b>	<b>1,020</b>	<b>1,119</b>	<b>1,236</b>
Fee and other income	22	20	26
<b>Net revenue</b>	<b>1,042</b>	<b>1,139</b>	<b>1,262</b>
Provision for credit losses	(180)	(140)	(233)
Net foreign exchange gains (losses) on investments	2	(3)	-
Net gains (losses) on other financial instruments	1	-	-
<b>Income before operating and administrative expenses</b>	<b>865</b>	<b>996</b>	<b>1,029</b>
Operating and administrative expenses	414	417	451
<b>Net income</b>	<b>451</b>	<b>579</b>	<b>578</b>
<b>As a % of average portfolio outstanding</b>			
Net interest income	4.6	4.6	4.7
Fee and other income	0.1	0.1	0.1
<b>Net revenue</b>	<b>4.7</b>	<b>4.7</b>	<b>4.8</b>
Provision for credit losses	(0.8)	(0.6)	(0.9)
<b>Income before operating and administrative expenses</b>	<b>3.9</b>	<b>4.1</b>	<b>3.9</b>
Operating and administrative expenses	1.9	1.7	1.7
<b>Net income</b>	<b>2.0</b>	<b>2.4</b>	<b>2.2</b>
<b>Average portfolio outstanding</b>	<b>22,016</b>	<b>24,093</b>	<b>26,346</b>

## Growth & Transition Capital

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

Market demand for Growth & Transition Capital's offering is expected to increase the total value of acceptances from \$385 million in fiscal 2018 to \$410 million in fiscal 2019 (Table 6). This growth is in line with last year's projection and also reflects forecast efficiency gains from streamlined processes, as well as stronger expected demand for growth equity.

Portfolio at fair value is expected to grow from \$1.0 billion in fiscal 2018 to \$1.2 billion in fiscal 2019 (Table 7).

**Table 6—Growth & Transition Capital: Net planned acceptances**  
(\$ in millions)

	2017	2018	2019
CP 2018-19 to 2022-23	321	385	410

**Table 7—Growth & Transition Capital: Portfolio at fair value**  
(\$ in millions)

	2017	2018	2019
CP 2018-19 to 2022-23	860	1,020	1,167

As shown in Table 8, Growth & Transition Capital will remain an important contributor to BDC's financial sustainability, with net income estimated at \$61 million in fiscal 2018 and forecast at \$58 million in fiscal 2019. The fiscal 2018 estimate reflects realized gains and fair value appreciation due to an unforeseen successful transaction. As a result of expected higher demand for growth equity, net interest income as a percentage of the average

portfolio outstanding should decrease while net fair value change should improve.

As Growth & Transition Capital activities scale, efficiency will remain a focus. Operating and administrative expenses as a percentage of the average portfolio outstanding are projected to decrease from 4.1% in fiscal 2018 to 3.9% in fiscal 2019 (Table 8).

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

	2017	2018	2019
<b>Net interest income</b>	<b>71</b>	<b>80</b>	<b>91</b>
Net realized gains (losses) on investments and write-offs	2	–	(10)
Fee and other income	26	23	23
<b>Net revenue</b>	<b>99</b>	<b>103</b>	<b>104</b>
Net fair value change	(14)	(10)	(12)
Fair value adjustments due to realized gains (losses) and write-offs	(4)	8	10
<b>Income before operating and administrative expenses</b>	<b>81</b>	<b>101</b>	<b>102</b>
Operating and administrative expenses	36	40	44
<b>Net income</b>	<b>45</b>	<b>61</b>	<b>58</b>
Net income attributable to:			
BDC's shareholder	45	53	58
Non-controlling interests	–	8	–
<b>Net income</b>	<b>45</b>	<b>61</b>	<b>58</b>
<b>As a % of average outstanding</b>			
<b>Net interest income</b>	<b>8.7</b>	<b>8.3</b>	<b>8.1</b>
Net realized gains (losses) on investments and write-offs	0.2	0.0	(0.9)
Fee and other income	3.2	2.4	2.0
<b>Net revenue</b>	<b>12.1</b>	<b>10.7</b>	<b>9.2</b>
Net fair value change	(1.7)	(1.0)	(1.1)
Fair value adjustments due to realized gains (losses) and write-offs	(0.5)	0.8	0.9
<b>Income before operating and administrative expenses</b>	<b>9.9</b>	<b>10.5</b>	<b>9.0</b>
Operating and administrative expenses	4.4	4.1	3.9
<b>Net income</b>	<b>5.5</b>	<b>6.4</b>	<b>5.1</b>

## Venture Capital

A healthy and vibrant VC ecosystem is important to foster innovation in Canada. BDC's VC strategy aims to make Canadian VC a financially viable and attractive asset class for private sector investors. BDC plays an important role by helping Canadian innovators launch and scale technology-focused businesses and commercialize innovation, as well as by building the skills of VC fund managers. It backs approximately 600 companies through direct investments in new businesses and indirect investments in VC funds.

To respond to evolving market needs, BDC is adapting its approach to best support the VC industry. The revised approach, as described below, is expected to maintain planned authorizations for VC activities in line with last year's projections. They should total \$255 million in fiscal 2019 (Table 9).

BDC has been making direct VC investments in companies through its **internal direct funds** in the areas of information technology (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.

While BDC remains committed to maintaining its support for its existing portfolio companies, it is looking to evolve its approach to increase its flexibility to invest in sectors strategic to the Canadian economy. With this, BDC will be better equipped to respond to changing market needs and shareholder priorities.

Authorizations from BDC's internal direct funds are expected to total \$70 million in fiscal 2019.

BDC continues to **co-invest** in companies alongside its indirect fund partners. This approach addresses the need for increased funding for rapidly growing Canadian companies in emerging sectors and later stages of growth to help them reach scale. BDC expects to authorize \$20 million in co-investments in fiscal 2019.

BDC is also a leader in reinforcing the early-stage innovation ecosystem and filling the gap in seed funding with **strategic investments**

in other ecosystem-building activities. One such initiative is BDC's work with a select group of accelerators to identify and invest in top venture start-ups. Strategic investment authorizations are projected to total \$12 million in fiscal 2019.

In fiscal 2017, BDC announced increased **support for women-led technology firms** by committing \$70 million from fiscal 2017 to fiscal 2022:

- \$50 million was earmarked for its Women's Growth Acceleration program, which provides equity and equity-like investments to help both early- and late-stage growing women-led tech companies.
- \$10 million was dedicated to its Women's Venture Acceleration program, which invests in seed-stage women-led tech start-ups.
- \$10 million was dedicated to indirect investments, with a focus on developing female investors in VC funds investing in women-led firms, or other initiatives that increase the depth of networks and resources for women founders.

A total of \$16 million was authorized under the Women in Tech initiative in fiscal 2017 and fiscal 2018, and \$13 million is expected to be authorized in fiscal 2019 (Table 9).

BDC's indirect VC, or **fund investments**, approach is focused on building and supporting at-scale, world-class, Canadian VC funds by supporting a mix of emerging and established fund managers. BDC indirectly supports 566 tech firms through investments in close to 65 funds. BDC will be an anchor investor in selected new funds and expects authorizations of \$140 million in fiscal 2019 through its fund investments (Table 9).

As shown in Table 10, VC proceeds are expected to total \$160 million in fiscal 2019, while disbursements should total \$233 million. BDC's VC portfolio has not yet reached maturity, which explains why disbursements are higher than proceeds.

The VC portfolio at fair value is expected to increase from \$1.2 billion in fiscal 2018 to \$1.3 billion in fiscal 2019 (Table 11).

**Table 9—Venture Capital: Authorizations**  
(\$ in millions)

	2017	2018	2019
Internal direct funds	71	80	70
Co-investments	–	25	20
Strategic investments	10	9	12
Women in Tech	5	11	13
Fund investments	75	55	140
<b>Total authorizations</b>	<b>161</b>	<b>180</b>	<b>255</b>

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

	2017	2018	2019
Proceeds	131	120	160
Disbursements (excluding operating and administrative expenses)	(198)	(230)	(233)
	<b>(67)</b>	<b>(110)</b>	<b>(73)</b>

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

			
<b>CP 2018-19 to 2022-23</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Portfolio at fair value	1,016	1,215	1,324

As shown in Table 12, a profit of \$5 million is expected in fiscal 2019. It should be noted that VC is a risky asset class that is subject to

volatile market conditions. This may result in significant variation from plan.

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

	2017	2018	2019
Net realized gains (losses) on investments	27	42	57
Write-offs	(22)	(60)	(28)
<b>Net realized gains (losses) on investments and write-offs</b>	<b>5</b>	<b>(18)</b>	<b>29</b>
Fee and other income	4	–	(1)
<b>Net revenue (loss)</b>	<b>9</b>	<b>(18)</b>	<b>28</b>
Net fair value change	(4)	97	30
Fair value adjustment due to realized gains (losses) and write-offs	14	45	(22)
Net foreign exchange gains (losses) on investments	11	(30)	–
<b>Income before operating and administrative expenses</b>	<b>30</b>	<b>94</b>	<b>36</b>
Operating and administrative expenses	25	26	31
<b>Net income (loss)</b>	<b>5</b>	<b>68</b>	<b>5</b>
Net income (loss) attributable to:			
BDC's shareholder	6	38	5
Non-controlling interests	(1)	30	–
<b>Net income (loss)</b>	<b>5</b>	<b>68</b>	<b>5</b>

## BDC Advisory Services

BDC Advisory Services offers entrepreneurs high-quality advisory solutions, a program targeting high-impact firms and online educative content. BDC invests in helping Canadian businesses become more competitive by taking on a significant portion of the costs associated with these advisory activities to ensure that firms can reap maximum benefits. A BDC study<sup>1</sup> 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.

In recent years, BDC Advisory Services has refined its approach to better cater to the unique needs of both smaller and larger SMEs<sup>2</sup> while refining the way it delivers projects. In fiscal 2018, BDC further leveraged the expertise of its financing account managers, who, as development bankers, understand the challenges entrepreneurs face. Through their unique position, financing account managers can easily guide clients if they decide to invest in a small advisory mandate. BDC has also equipped its delivery consultants with simple tools and templates that enhance the personalized and value-added coaching they provide to entrepreneurs.

<sup>1</sup> Statistics Canada and BDC, *Measuring BDC's Impact on Its Clients (2008-2012)*, December 2016.

<sup>2</sup> Smaller SMEs < \$2 million in revenues > larger SMEs.



BDC Advisory Services will further help build the fundamental business capabilities of smaller SMEs by continuing to deploy its small business solutions.

For larger SMEs, BDC Advisory Services' focus will remain on helping entrepreneurs prioritize their needs and address key business pain points. It will also continue to refine its portfolio of solutions to support ambitious firms' international expansion and explore alternative ways of collaborating with Export Development Canada and Global Affairs Canada to help SMEs enter and succeed in foreign markets.

In addition, BDC Advisory Services will continue to refine the Growth Driver Program 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 as they develop and execute a growth plan, to ensure that high-impact firms reach their full potential.

In light of changes to BDC Advisory Services' operating model, its fiscal 2018 year-end revenue projection was revised. Overall, net investment remains unaffected by these changes, due to lower delivery costs and operating and administrative expenses compared to last year's plan. 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.

Revenues are expected to reach \$23 million in fiscal 2019, fuelled by new client participation in the Growth Driver Program. Net investment is expected to remain stable at \$55 million in fiscal 2019 (Table 13).

The revised revenue projections for fiscal 2018 lead to a lower cost-recovery ratio than anticipated in last year's plan. The ratio should, however, increase from 34% in fiscal 2018 to 37% in fiscal 2019 reflecting growth of BDC Advisory Services revenues as well as a continued focus on controlling expenses and increasing efficiency (Table 14).

**Table 13—BDC Advisory Services: Statement of income**  
(\$ in millions)

	2017	2018	2019
Revenue from activities	20	19	23
Operating and administrative expenses including delivery costs	66	73	78
<b>Net income (loss)</b>	<b>(46)</b>	<b>(54)</b>	<b>(55)</b>

**Table 14—BDC Advisory Services: Cost-recovery ratio**  
(excluding corporate allocation)

	
	2017 2018 2019
<b>CP 2018-19 to 2022-23</b>	<b>37% 34% 37%</b>

## Venture Capital Action Plan

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 to 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 shown in Table 15, BDC anticipates generating \$1 million in proceeds from VCAP in fiscal 2019. The bulk of the proceeds will accrue later in the life of the program.

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 of its role in monitoring VCAP, BDC is providing Innovation, Science and Economic Development Canada (ISED) with quarterly and annual progress reports on the program, which ISED can publish at its discretion. In addition, through ISED, BDC publicized the names of several VCAP recipient companies, including their sectors and locations.

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

	2017	2018	2019
<b>Authorizations</b>	—	—	—
<b>Disbursements</b>	158	78	6
<b>Proceeds</b>	5	—	1
<b>Portfolio at fair value</b>	302	385	380
Net revenue	—	—	—
Fair value change	11	6	(10)
<b>Income before operating and administrative expenses</b>	11	6	(10)
Operating and administrative expenses	1	1	1
<b>Net income (loss)</b>	10	5	(11)

## Venture Capital Catalyst Initiative

Based on the early success of VCAP, the government asked BDC to manage the Venture Capital Catalyst Initiative (VCCI), through which it allocates additional capital to further increase the availability of late-stage VC for Canadian entrepreneurs. In collaboration with the federal government, BDC consulted more than 115 industry stakeholders across Canada on program goals and design. BDC's advice on the program's design was aligned with the Auditor General's recommendations in its 2016 report on VCAP, with which the government agreed, regarding the selection process and exit mechanisms to help ensure the initiative is fair, transparent and effective.

Budget 2017 made available an additional \$400 million for VCCI, which will be used to leverage private capital up to a total pool of \$1.5 billion. VCCI will allocate \$350 million (stream 1) to private sector-led funds of funds that will seek to maximize returns through diversified investments, support skilled VC funds and attract substantial private sector capital. An additional \$50 million (stream 2) will be allocated for proposals in areas that can provide a financial return

to investors, but would not otherwise be addressed by the first stream. Applicants under stream 2 should have strategies focused on supporting underrepresented groups such as women or diverse fund management teams and entrepreneurs, or emerging regions and sectors.

To implement the program, BDC expects a capital injection of \$50 million in fiscal 2019 (Table 24, page 90). As shown in Table 16, BDC expects to authorize \$100 million in fiscal 2019. Disbursements should total \$5 million, while no proceeds are expected in this early stage of the program.

Due to fair value change, a net loss of \$3 million is projected in fiscal 2019.

While VCCI is presented as a separate segment in this corporate plan, BDC does not have sufficient information at this time to determine whether a separate segment is required under IFRS. It should be noted that reporting on this segment in this corporate plan may differ from that in upcoming annual reports.

**Table 16—VCCI: Activity and statement of income**  
(\$ in millions)

	2018	2019
<b>Authorizations</b>		<b>100</b>
<b>Disbursements</b>		<b>5</b>
<b>Portfolio at fair value</b>		<b>2</b>
Net revenue		–
Fair value change		(2)
<b>Income before operating and administrative expenses</b>		<b>(2)</b>
Operating and administrative expenses		1
<b>Net income (loss)</b>		<b>(3)</b>

## Cleantech Scale Up Initiative

Recognizing the importance of giving high-potential innovative cleantech firms access to financing, the federal government asked BDC to further support the growth and expansion of future Canadian global cleantech champions. Budget 2017 allocated \$600 million in new capital to BDC for debt and equity transactions that exceed BDC's normal risk appetite.<sup>1</sup> BDC's Cleantech Scale Up Initiative aims to build globally competitive Canadian cleantech firms and a long-term commercially sustainable cleantech industry that will, over time, be able to attract the necessary private sector capital investments to grow. The following forecast represents the shareholder-approved business plan assumptions.

To implement the program, BDC expects capital injections totalling \$300 million between fiscal 2018 and fiscal 2019 (Table 24, page 90). BDC expects to deploy \$130 million in fiscal 2019 (Table 17).

With this level of activity, BDC expects its portfolio at fair value to reach 114 million in fiscal 2019 (Table 17), and have a long lifespan, given the nature of cleantech transactions.

Given the risky nature of cleantech transactions, a net loss of \$18 million is forecast in fiscal 2019 (Table 17), due in part to early write-offs and to the back-ended return structure of transactions.

BDC's new business line will be managed with the same financial rigour as the rest of the organization to control costs and maximize efficiency. As shown in Table 17, operating expenses are forecast to reach \$6 million in fiscal 2019.

Due to the high-risk profile of the initiative, financial results are expected to be subject to significant volatility.

**Table 17—Cleantech Scale Up Initiative: Activity and statement of income**  
(\$ in millions)

	2018	2019
<b>Acceptances (\$)</b>	<b>60</b>	<b>130</b>
<b>Acceptances (#)</b>	<b>6</b>	<b>14</b>
<b>Portfolio at fair value</b>	<b>31</b>	<b>114</b>
<b>Net interest income</b>	<b>—</b>	<b>3</b>
Net realized gains (losses) on investments and write-offs	—	—
Fee and other income	1	4
<b>Net revenue</b>	<b>1</b>	<b>7</b>
Net fair value change	(5)	(19)
Fair value adjustments due to realized gains (losses) and write-offs	—	—
<b>Income before operating and administrative expenses</b>	<b>(4)</b>	<b>(12)</b>
Operating and administrative expenses	2	6
<b>Net income</b>	<b>(6)</b>	<b>(18)</b>

<sup>1</sup> This capital is in addition to the \$100 million in financing linked to BDC's planned activities and existing capital, as per its corporate plan 2017-18 to 2021-22.







## Consolidated portfolio, net income and annual return on equity

Table 18 shows the composition and growth of BDC's consolidated outstanding portfolio in dollars. BDC's portfolio has increased significantly, and combined with business lines planned levels of activity, should bring the portfolio to \$31 billion in fiscal 2019, representing a 10.5% increase over the previous fiscal year.

BDC's consolidated net income for fiscal 2018, shown in Table 19, is higher than expected

in last year's plan mainly due to favourable fair value appreciation of some VC portfolio companies and a lower expected provision for credit losses in BDC Financing. The fiscal 2019 net income is forecast at \$554 million due to projected early losses in the Cleantech Initiative and a higher provision for credit losses in BDC Financing partly explained by IFRS9. This should lead to a 7.5% annual return on equity in fiscal 2019.

**Table 18—Consolidated portfolio**  
(\$ in millions)

	2017	2018	2019
 BDC Financing	22,998	25,060	27,643
 Growth & Transition Capital*	860	1,020	1,167
 Venture Capital*	1,016	1,215	1,324
 VCAP*	302	385	380
 VCCI*	–	–	2
 Cleantech Scale Up Initiative*	–	31	114
<b>Total portfolio</b>	<b>25,176</b>	<b>27,711</b>	<b>30,630</b>
<b>Growth %</b>	<b>10.9%</b>	<b>10.1%</b>	<b>10.5%</b>

\*At fair value

## 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 20) than BDC's consolidated portfolio (Table 18), thus improving the efficiency ratio (Table 22).

### 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 21, facilities expenditures are forecast to peak at \$23 million in fiscal 2018,

reflecting leasehold improvements to optimize space usage and improve collaboration, following the renewal of the lease for BDC's Montreal head office and business centre. Leasehold expenditures are expected to decrease to \$18 million in fiscal 2019.

Capital expenditures on information technology are expected to follow a similar trend, reflecting BDC's efforts to enhance its delivery model—notably, through its online platform and mobility tools, and process automation—to increase access to its services and enhance client experience.

**Table 19—Consolidated net income**  
(\$ in millions)

	2017	2018	2019
BDC Financing	451	579	578
Growth & Transition Capital	45	61	58
Venture Capital	5	68	5
BDC Advisory Services	(46)	(54)	(55)
VCAP	10	5	(11)
VCCI	–	–	(3)
Cleantech Scale Up Initiative	–	(6)	(18)
<b>Net income</b>	<b>465</b>	<b>653</b>	<b>554</b>
<b>Return on Equity - Annual</b>	<b>8.2%</b>	<b>9.7%</b>	<b>7.5%</b>

**Table 20—Operating and administrative expenses**  
(\$ in millions)

	2017	2018	2019
BDC Financing	414	417	451
Growth & Transition Capital	36	40	44
Venture Capital	25	26	31
BDC Advisory Services	66	73	78
VCAP	1	1	1
VCCI	–	–	1
Cleantech Scale Up Initiative	–	2	6
<b>Total operating budget</b>	<b>542</b>	<b>559</b>	<b>612</b>
<b>Operating expenses growth (%)</b>	<b>14%</b>	<b>3%</b>	<b>9%</b>

**Table 21—Capital budget**  
(\$ in millions)

	2017	2018	2019
Facilities	9	23	18
Information technology	8	26	14
<b>Total</b>	<b>17</b>	<b>49</b>	<b>32</b>



## Key financial indicators

Table 22 presents financial indicators of BDC's financial sustainability and capital adequacy, as required by the Capital and Dividend Policy Framework for Financial Crown Corporations. More information on BDC's statutory limitations can be found on page 90.

### Adjusted annual return on equity<sup>1</sup>

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

In light of the introduction of the Cleantech Initiative and VCCI, BDC is introducing an adjusted return on equity, which excludes all initiatives requested and fully capitalized by the shareholder (the aforementioned initiatives in addition to VCAP). This will become a key indicator to measure BDC's financial sustainability and to efficiently manage capital. The adjusted annual return on equity is forecast to reach 10.3% in fiscal 2018, reflecting better than anticipated performance in VC and BDC Financing and should decrease to 8.7% in fiscal 2019.

### Ten-year moving average adjusted return on equity

The 10-year moving average adjusted return on equity is expected to reach 9.7% in fiscal 2019.

### BDC Financing's efficiency ratio<sup>2</sup>

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

BDC Financing's efficiency ratio is forecast to continue to improve, reflecting efficiency gains from investments in processes and technology. As shown in Table 22, the ratio should drop from 36.6% in fiscal 2018 to 35.7% in fiscal 2019 (a lower ratio reflects increased efficiency), meaning that BDC Financing will incur 35.7 cents of expense to earn one dollar of revenue.

### Internal capital ratio

BDC assesses the adequacy of its capital status with its internal capital ratio, expressed as the level of available capital available over the economic capital required. The Cleantech Initiative is excluded from this calculation while BDC gains further experience in the cleantech space and until financial performance information becomes available.

The internal capital ratio is expected to reach BDC's target of 134% in fiscal 2018. Please refer to the Capital plan section for additional information (Table 23).

Table 22—Key financial indicators

	2017	2018	2019
Adjusted return on equity (annual)	8.3%	10.3%	8.7%
Adjusted return on equity (10-year moving average)	9.3%	9.6%	9.7%
BDC Financing efficiency ratio	39.7%	36.6%	35.7%
Internal capital ratio	130%	134%	134%

<sup>1</sup> Adjusted 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. It excludes VCAP, VCCI and the Cleantech Scale Up Initiative.

<sup>2</sup> 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

BDC's capital management framework is aligned with:

- BDC's strategy, Risk Appetite Statement and Enterprise Risk Management Policy
- relevant industry practices and the Office of the Superintendent of Financial Institution's (OSFI's) guidelines, while accounting for factors unique to BDC's mandate as a financial Crown corporation.

## 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 VCAP and VCCI, as BDC manages these programs under a specific capital allocation from the shareholder.

The key principles behind BDC's capital management framework are as follows.

- BDC has adequate capital to protect against risks that could adversely impact its ability to deliver on its mandate and to reasonably 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.

To assess its capital adequacy, BDC monitors its capital status on an ongoing basis by comparing its available capital to its capital demand. A key measure for assessing capital status adequacy is BDC's internal capital ratio.

Because the Cleantech Initiative was designed so that excess capital from its activities would not be available for other BDC activities, the initiative's capital status is presented separately and BDC introduced the concept of Cleantech Initiative protected capital in fiscal 2018. The Cleantech Initiative is also excluded from the calculation of BDC's internal capital ratio while BDC gains further experience in the cleantech space and until financial performance information becomes available.

BDC's capital management framework also includes an operating range to better absorb unforeseen capital movements without requiring capital injections from the shareholder and to allow excess capital to be paid as dividends the following year.

## Available capital

Available capital is composed of equity attributable to BDC's shareholder (retained earnings and capital injections) and adjustments aligned with industry practices.

## 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 Pillar 1 risks (credit and operational risks) and Pillar 2 risks (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 under a severely adverse scenario. The scenario narrative is aligned with industry practices and OSFI's expectations.

### Reserve for VC activities

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

## Cleantech Scale Up Initiative capital status

When considering BDC's overall capital status, the Cleantech Initiative's capital status—defined as the difference between the initiative's available capital and the economic capital required—is presented separately.

### Cleantech Scale Up Initiative protected capital

The Cleantech Initiative's capital status is considered protected capital, meaning that excess capital derived from the initiative would not be available for other BDC activities. Excess capital is modelled to be returned as share buy-back to the shareholder, starting in fiscal 2023 (Table 24). BDC recognizes that the assumptions of the shareholder may evolve as this capital is deployed and BDC will be ready to adapt this plan as needed.

## Operating range

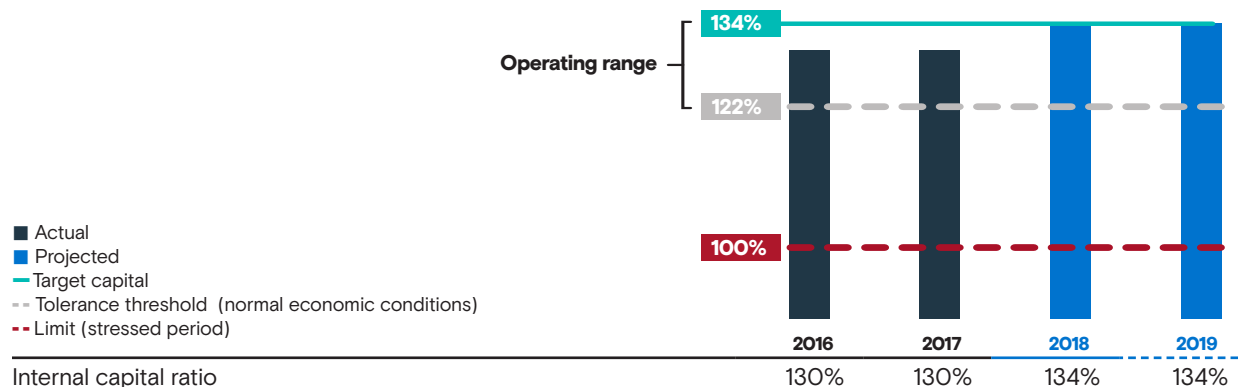
BDC's operating range accounts for differences between planned and actual levels of activities, as well as other corporate plan assumptions that are difficult to predict, excluding activities under the Cleantech Initiative. It allows capital to be managed near a target level by mitigating unplanned capital 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.

As shown in table 23, 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.

**Table 23—Internal capital ratio (excluding Cleantech)**  
(available capital as a percentage of economic capital required)



## Dividend Policy

BDC revised its Dividend Policy in fiscal 2017 to align with the dividend methodology included in the new Capital and Dividend Policy Framework for Financial Crown Corporations. Excess capital, calculated as the difference between available capital and capital demand less operating range, is declared as dividends and distributed to the shareholder in the following fiscal year, subject to the discretion of the Board of Directors. The calculation excludes the Cleantech Scale Up Initiative.

As returns generated by activities surpass the capital required to support portfolio growth, BDC expects to be in a position to have excess capital for dividend in fiscal 2018 and 2019.

## Statutory limitations

The *Business Development Bank of Canada 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<sup>1</sup> ratio is projected at 3:1 in fiscal 2018, meaning that for every \$3.10 of debt, BDC has \$1 of equity. The ratio should gradually move to 3:1 in fiscal 2019, well below the statutory limit of 12:1 (Table 25).

As shown in Table 24, BDC's paid-in capital is expected to reach \$2.6 billion in fiscal 2018, but will increase to \$2.8 billion in fiscal 2019 following capital injections required for VCCI and the Cleantech Scale Up Initiative. The *Budget Implementation Act, 2017, No. 2* increases BDC's paid-in capital limit from \$3.0 billion to \$4.5 billion.

**Table 24—Paid-in capital**  
(\$ in millions)

	2017	2018	2019
Opening paid-in capital	2,288	2,413	2,603
Capital injections (repurchase of shares)			
VCAP	125	65	—
VCCI	—	—	50
Cleantech Scale Up Initiative	—	125	175
Closing paid-in capital	2,413	2,603	2,828

<sup>1</sup> Debt-to-equity ratio is a measure to ensure BDC operates within its statutory limitations on debts. It is 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.



# Projected Consolidated Financial Statements

**Table 25—Consolidated statement of financial position**  
(unaudited, \$ in millions)

	2017	2018	2019
<b>ASSETS</b>			
Cash and cash equivalents	649	811	1,009
Asset-backed securities	518	513	667
Loans	21,753	23,797	26,259
Subordinate financing investments*	860	1,042	1,247
Venture Capital investments*	1,016	1,224	1,359
VCAP investments	302	385	380
VCCI investments	—	—	5
Loans and investments	24,449	26,961	29,916
Net defined benefit asset	121	122	38
Other assets	98	97	97
<b>Total assets</b>	<b>25,317</b>	<b>27,991</b>	<b>31,060</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	119	131	145
Short-term notes	18,809	20,659	22,717
Long-term notes	167	143	271
Borrowings	18,976	20,802	22,988
Net defined benefit liability	231	251	260
Other liabilities	51	56	62
<b>Total liabilities</b>	<b>19,377</b>	<b>21,240</b>	<b>23,455</b>
<b>Equity</b>			
Share capital	2,413	2,603	2,828
Contributed surplus	28	28	28
Retained earnings at beginning of year	3,003	3,474	4,083
Opening adjustment	—	—	120
Net income	466	615	554
Remeasurements of net post-employment benefit liability	74	(6)	—
Dividends on common shares	(69)	—	(32)
Retained earnings	3,474	4,083	4,724
Accumulated other comprehensive income	3	(2)	(4)
<b>Equity attributable to BDC's shareholder</b>	<b>5,918</b>	<b>6,712</b>	<b>7,576</b>
Non-controlling interests	22	40	30
<b>Total equity</b>	<b>5,940</b>	<b>6,751</b>	<b>7,605</b>
<b>Total liabilities and equity</b>	<b>25,317</b>	<b>27,991</b>	<b>31,060</b>
<b>Debt-to-equity ratio</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>

\* Includes investments in cleantech

**Table 26—Consolidated statement of income**  
(\$ in millions)

	2017	2018	2019
Interest income	1,170	1,359	1,656
Interest expense	79	160	326
<b>Net interest income</b>	<b>1,091</b>	<b>1,199</b>	<b>1,330</b>
Net realized gains (losses) on investments	7	(18)	19
Revenue from Advisory Services	20	19	23
Fee and other income	52	44	52
<b>Net revenue</b>	<b>1,170</b>	<b>1,244</b>	<b>1,424</b>
Provision for credit losses	(180)	(140)	(233)
Net change in unrealized appreciation (depreciation) of investments*	3	141	(25)
Net foreign exchange gains (losses) on investments	13	(33)	–
Net gains (losses) on other financial instruments	1	–	–
<b>Income before operating and administrative expenses</b>	<b>1,007</b>	<b>1,212</b>	<b>1,166</b>
Operating and administrative expenses	542	559	612
<b>Net income</b>	<b>465</b>	<b>653</b>	<b>554</b>
Net income attributable to:			
BDC's shareholder	466	615	554
Non-controlling interests	(1)	38	–
<b>Net income</b>	<b>465</b>	<b>653</b>	<b>554</b>

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

**Table 27—Consolidated statement of comprehensive income**  
(\$ in millions)

	2017	2018	2019
<b>Net income</b>	<b>465</b>	<b>653</b>	<b>554</b>
<b>Other comprehensive income (loss)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in unrealized gains (losses) on available-for-sale-assets			
Net change in unrealized gains (losses) on cash flow hedges	(2)	(4)	–
<b>Total items that may be reclassified subsequently to net income</b>	<b>1</b>	<b>(1)</b>	<b>–</b>
<i>Items that will not be reclassified to other comprehensive income</i>			
Remeasurements of net post-employment benefit liability	73	(6)	–
<b>Other comprehensive income (loss)</b>	<b>72</b>	<b>(10)</b>	<b>–</b>
<b>Total comprehensive income</b>	<b>537</b>	<b>643</b>	<b>554</b>
Total comprehensive income (loss) attributable to:			
BDC's shareholder	538	605	554
Non-controlling interests	(1)	38	–
<b>Total comprehensive income</b>	<b>537</b>	<b>643</b>	<b>554</b>



**Table 28—Statement of cash flows**

(\$ in millions)

	2017	2018	2019
Net cash flows provided by operating activities	(1,520)	(1,374)	(1,614)
Net cash flows used in investing activities	(361)	(459)	(557)
Net cash flows provided by financing activities	1,850	1,995	2,369
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(31)</b>	<b>162</b>	<b>198</b>
Cash and cash equivalents at beginning of year	680	649	811
<b>Cash and cash equivalents at end of year</b>	<b>649</b>	<b>811</b>	<b>1,009</b>

# Application of modified or new accounting changes

Information is provided below on amendments and interpretations to existing standards, as well as new standards, that are effective starting in fiscal 2019 or that are not yet effective but are expected to affect BDC's financial results.

## Modified or new accounting changes effective in fiscal 2019

International Financial Reporting Standard 9 (IFRS 9), Financial Instruments, and IFRS 15, Revenue From Contracts With Customers, are effective for BDC starting April 1, 2018 and have been fully integrated into this corporate plan. Considering that IFRS 9 will affect fiscal 2019 opening retained earnings, Table 40 presents an estimate of the transition adjustment. BDC has concluded that IFRS 15 will have no material impact 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.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively, subject to certain exemptions. For BDC, IFRS 9 is effective for the fiscal year ended March 31, 2019. The transition date is

April 1, 2018, and the first publicly available financial statements prepared using IFRS 9 will be the Quarterly Financial Report for the first quarter of fiscal 2019 (June 30, 2018). BDC will be applying the exemption and, therefore, will not be restating comparative information. The differences between the carrying amounts of financial assets and liabilities from the adoption of IFRS 9 will be recorded through retained earnings on April 1, 2018.

### 1. Classification and measurement of financial assets and financial liabilities

IFRS 9 replaced the classification and measurement of financial instruments under IAS 39 with a new model that contains only three classification categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). Classification under IFRS 9 reflects the entity's business model for managing financial assets and its contractual cash flow characteristics. BDC concluded that there will be no change in the measurement of its financial assets and liabilities at adoption of IFRS 9.

**Table 29—Fiscal year 2019 opening adjustments due to IFRS 9 adoption**  
(\$ in millions)

<b>Closing retained earnings on March 31, 2018</b>	<b>4,083</b>
Reversal of allowance on credit losses	117
Reversal of accumulated other comprehensive income	3
<b>Opening retained earnings on April 1, 2018</b>	<b>4,203</b>

## 2. Impairment

IFRS 9 introduces a new forward-looking expected credit loss (ECL) impairment model, which replaces the previous incurred loss model under IAS 39. BDC estimates that the financial impact of applying the new impairment model at the transition date will result in a reversal of the allowance for credit losses recognized in the opening retained earnings of fiscal 2019. BDC estimates that the total amount of the allowance for credit losses to be reversed in the opening retained earnings for fiscal 2019 will be approximately \$117 million.

## 3. Hedge accounting

BDC currently designates certain cash flow hedges held for risk management as cash flow hedges. Under IFRS 9, BDC has decided to discontinue hedge accounting due to the insignificant impact on the Consolidated Financial Statements. This will result in a reversal of accumulated other comprehensive income. BDC estimates the impact of the reversal to be approximately \$3 million.

## 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.

BDC has completed its analysis of IFRS 15 and has concluded that its adoption will not have a material impact on the Consolidated Financial Statements.

## Modified or new accounting changes not yet effective

### 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.

BDC is currently assessing the impact of IFRS 16, but does not expect this new standard to have a significant impact on BDC's Consolidated Statement of Financial Position.