

BUSINESS DEVELOPMENT BANK OF CANADA LAUNCHES BRIDGE FINANCING PROGRAM TO SUPPORT CANADIAN VENTURE CAPITAL-BACKED COMPANIES IMPACTED BY COVID-19

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As the impact of the novel coronavirus (COVID-19) continues to be felt worldwide, many Canadian technology companies are facing unprecedented challenges posed by business interruptions, ongoing operating costs and expenses, and liquidity concerns. In response, BDC Capital, the investment arm of Business Development Bank of Canada (BDC), has recently launched the BDC Capital Bridge Financing Program, to maintain and protect the growth of the Canadian venture capital sector.

Under the Bridge Financing Program, BDC may co-invest in eligible Canadian companies alongside a syndicate of investors containing a "qualified investor" in a current financing round and on a dollar-for-dollar basis up to a maximum of a \$3-million investment by way of a convertible note.

The program complements previously announced relief measures the Government of Canada has introduced to mitigate the impact of the COVID-19 pandemic on Canadian technology companies – including the provision of \$250 million to assist innovative early-stage companies through the National Research Council of Canada's Industrial Research Assistance Program ([see our MarketCaps here](#)).

Gowling WLG Focus

The commitment shown by the Government of Canada for entities in the technology space

is an indication of the importance of technology and innovation as part of Canada's future. The concept of "disruption" is one that technology companies hold in a positive light to demonstrate a superior way of doing something to replace dated systems or processes. Conversely, the challenges being experienced by the global economy today as a result of the COVID-19 pandemic is a much different type of disruption, which will undoubtedly increase the need for innovative solutions to help position businesses and industries for success as the world prepares to emerge and re-build together.

Eligibility Requirements

To be eligible for the Bridge Financing Program, companies and investors must satisfy the following requirements:

a. **Eligible Company.** The company must:

- i. be a "Canadian" company, requiring that the company is provincially or federally incorporated in Canada, has substantial operations in Canada and has a majority of its senior management resident in Canada;
- ii. be backed by a qualified venture capital firm;
- iii. have raised at least \$500,000 in external capital prior to applying for the Bridge Financing Program; and
- iv. be specifically impacted by the COVID-19 pandemic.

The Bridge Financing Program is not limited to BDC's existing investment portfolio and any company that satisfies the Bridge Financing Program eligibility criteria may apply. No restrictions are imposed on companies that are currently receiving funding under other pandemic relief programs, such as the Canada Emergency Wage Subsidy or the Business Credit Availability Program.

b. **Qualified Investor.** At least one investor of the investing syndicate must be approved by BDC as a "qualified investor." In order to be considered a "qualified investor," an investor must have:

- i. at least \$10 million in assets under management;
- ii. third party limited partners; and
- iii. investment in at least three portfolio companies in Canada.

An entirely non-Canadian investor syndicate that otherwise meets the eligibility criteria will also be considered on a case-by-case basis, taking into account factors

such as the foreign investors' record of investing in Canadian companies.

- c. **Characteristics of the Financing Round.** The current debt or equity financing must be for an aggregate amount of not less than \$250,000 and must not have closed before February 1, 2020.
- d. **Due Diligence.** Any co-investment by BDC will be subject to satisfactory due diligence review, agreement on the terms of the investment and approval by BDC's investment committee. It is expected that BDC will likely rely on due diligence performed by the investing syndicate to expedite the deployment of capital.
- e. **Other Requirements.** BDC has stated that demand for the Bridge Financing Program will be assessed on an as-needed basis. All things being equal, larger companies with a proven record of financial performance prior to the onset of the COVID-19 pandemic and an immediate need for funds will be prioritized.

Terms of the Convertible Note

The proposed key terms of the convertible note are:

- a. **Interest Rate.** The convertible note will accrue interest at the BDC base rate, (currently 4.5% and fluctuating in response to changes to the Bank of Canada prime rate) plus 4%. Interest on the convertible note will accrue and compound annually.
- b. **Term.** The convertible note will have a term of three years.
- c. **Option to Convert.** BDC may elect to convert the note in the following circumstances:
 - i. at or any time before maturity, BDC may convert the note into securities issued in the co-investing round of financing and at a price equal to such round;
 - ii. in the event of a qualified financing (details of which have not yet been confirmed by BDC), BDC may convert the note into securities issued in the qualified financing at a 20 per cent discount to the price of the qualified financing; and
 - iii. in a liquidity event, BDC may convert the note into securities issued in connection with such liquidity event at a 20 per cent discount to the liquidation price.
- d. **Payment in Kind.** At the election of the company, accrued but unpaid interest on the convertible note may be paid by adding the amount of the interest to the principal amount of the note.
- e. **Ranking.** The convertible note will be unsecured and subordinated; provided, however, that certain security of the company and/or ranking above existing creditors may be required by BDC in certain higher risk circumstances.

- f. **Most Favoured Nation.** In addition to the standard terms described above, BDC may elect, in circumstances where the current financing is also being completed by way of convertible notes and such notes contain more favourable terms, to invest under the terms of the current financing notes.
- g. **Repayment.** The principal amount plus all accrued interest under the convertible note will be due and payable at maturity. Companies may also have an option to prepay the convertible note, subject to the terms and conditions thereof.

Application Process

Given the volatile nature of the current COVID-19 pandemic and the rapidly evolving body of pending and proposed legislation, economic relief programs and government action, we expect the eligibility criteria and the investment terms in connection with the Bridge Financing Program to continue to be refined and clarified on a going-forward basis. We will continue to monitor and publish new information as it becomes available in the coming days and weeks. BDC encourages interested companies to discuss and coordinate with their lead investors and/or contact BDC at VCR ReliefProgram@bdc.ca for more information.

How Gowling WLG Can Help

Gowling WLG is available to assist Canadian technology sector startups with preparing and responding effectively to the ever-changing situation caused by the COVID-19 pandemic. If you have specific questions about how the Bridge Financing Program may apply to your company or would like to receive an update as more details are released, please contact a member of our [Tech Sector Group](#).

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