

# Ready Set Grow

Season Two Webinar Four

Session Summary

## Government Assistance: Financing and Risk Management Solutions in Trying Times

June 10, 2009

Presented by:



Technology Marketing  
Resource Centre



Canadian Innovation Centre

In collaboration with:

**CATA**Alliance

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## **Introduction**

The Ready Set Grow series presents webinars featuring subject matter experts and Canadian tech execs discussing topics of interest to the executives of young Canadian technology companies.

On June 10, 2009, Ready Set Grow looked at the topic of the financing and risk solutions available to Canadian companies from Crown corporation Export Development Canada (EDC) through a session featuring a panel of experts and questions from the audience.

This document captures the content of this session.

## **Speakers**

**Joseph Rios,**  
*Senior Associate, Information and Communication Technology  
Business Development Group  
Export Development Canada*

Joseph Rios works on the Information and Communications Technology Sector Team as a Senior Associate in the Business Development Group (BDG). Joseph joined EDC in 2005 working as an Underwriter in the Credit Insurance Underwriting (CIU) Group on the Light Manufacturing Team and more recently, on the Transportation Team. As a Senior Associate, Joseph is responsible for strategizing and executing business development initiatives that are critical to the fulfillment of the ICT market coverage mandate for EDC. Joseph also plays a role in managing the relationships with the various technology industry associations across Canada. Before joining EDC, Joseph worked in various capacities in both the private and public sectors, such as an Account Manager at GE Commercial Finance.

Joseph has a Bachelor of Commerce with a specialization in International Business and Management Information Systems from the University of Ottawa and has an MBA from the University of Quebec de Montreal.

**Chris Despond,**  
*Senior Account Manager, Export Development Canada*

Chris Despond graduated from McMaster University in 1984 with a Bachelor of Commerce. Since 1992, he has held various sales and marketing positions in the leasing industry. Chris joined EDC in 2001 as a Business Development Manager based in Toronto and moved to the new office in Mississauga in 2006.

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**Ilya Tchaplia, P.Eng.**  
*Founder, President and CTO*  
*ITS Electronics Inc.*

ITS Electronics is a 22-year veteran of the microwave industry and a leading global supplier of advanced microwave (mw) and millimeter wave (mmw) Radios, Solid State Power Amplifiers and Frequency Converters.

Their products are sold to the leaders in the Airborne Data, Satellite Data, and Fixed Wireless markets, such as Boeing, Rockwell Collins, General Dynamics, Lockheed Martin, NASA and both the U.S. Department of Defense and the Canadian Department of National Defense.

**Andrew Maxwell,**  
*Director Business Partnerships, Canadian Innovation Centre*

Andrew Maxwell's experience includes the founding of two environmental technology companies, the creation of a wireless, medical device and web company and a technology incubator that helped create 30 technology businesses. He is currently with the Canadian Innovation Centre and pursuing a Ph.D. in the area of new venture creation at the University of Waterloo. He teaches at UTM and Waterloo in the area of technology entrepreneurship.

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## Government Assistance: Financing and Risk Solutions in Trying Times

### The Canadian Challenge: Export or Die

Most young Canadian technology companies need to look at exporting as a key to long-term business development. In fact, more than 90% of Canadian technology companies start selling products to the USA, during their first year of revenue, making this export market more important than the Canadian market.

However, the challenges of exporting can be daunting, and involve different regulations and often extended payment terms. For young companies, the financial challenges of exporting either represent such a barrier that they do not export, or put significant strain on the early development of the business. Fortunately, in Canada, our various levels of government actively support the growth of Canadian business, especially those that create jobs and earn export revenues. There are a wealth of available government programs delivered by a number of organizations to assist Canadian companies – so many that it is often confusing as to which to contact.

Canadian companies exporting face five key financial challenges: determining if their customer is credit worthy, collecting payment from their customer, funding work in progress to support a customer contract, ensuring their customer has access to the money needed to pay for their products and paying for goods and services in advance of collecting money from the customer. Fortunately, over the years, the Canadian government has created a unique Crown corporation to help companies face these challenges, Export Development Canada (EDC). While many EDC clients are multinationals that compete across the world, the organization is particularly focused on developing solutions for companies just starting to export. In this seminar we will explore some of the services offered by EDC and a case study of a technology company that has benefitted from access to a number of EDC services.

### What is EDC?

Export Development Canada is a Crown corporation, wholly owned by the government of Canada, with a mandate to grow and develop Canada's trade and the capacity of Canadian exporters and investors to expand their international business.

*"EDC is Canada's export credit agency, offering innovative financing, insurance and risk management solutions to help Canadian exporters and investors expand their international business."*

Joseph Rios  
Senior Associate, ICT Sector, EDC

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EDC operates on commercial principles, and is self-sustaining, which means that it is not funded by tax dollars, but rather generates the revenue it needs to operate by charging fees for its services and interest on its loans, as well as issuing debt in capital markets. EDC works in partnership with other government agencies and the private sector to increase the competitiveness and success of Canadian companies abroad.

EDC provides a wide range of services to support Canadian companies as they do business outside of Canada. Some of its most popular services, and the ones we will focus on here, are in the areas of accounts receivable insurance, financing and bonding.

EDC's strength in financial services, innovative insurance and bonding products, international networks, and its in-depth analysis of global economic conditions, helps the company to tailor solutions to the needs of Canadian exporters and investors.

To help Canadian businesses during the current credit crunch, the Government of Canada has given EDC greater financial flexibility and, for a two-year period, broadened its mandate and scope of activity. EDC can now support a company's domestic business as well as its international sales.

In 2008, EDC supported more than \$85 billion in exports and investments and served more than 8,300 exporters and their global customers in up to 200 markets worldwide. Approximately 80 per cent of EDC's customers are small- and medium-sized businesses.

## **The Challenges of Developing International Business**

You are a young Canadian technology company. You have a great product, but you have limited resources – human, financial and operational. You are pursuing some opportunities in international markets; in fact you are close to signing your first major international contract. What are some of the challenges you might face?

One of the first issues has to do with information. How do you learn what you need to know about doing business

*"Nobody's going to give you a line of credit because you're good looking or brilliant or because of what you say you are going to do. They want a track record."*

Ilya Tchaplia  
President and CTO  
ITS Electronics Inc.

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in a particular country? You need to understand the legal, regulatory, tax, customs, business etiquette environment in the markets you want to sell to. As a neophyte exporter how do you learn these things without going to the school of hard knocks?

A shortage of working capital is also a common problem with young, growing companies, and trying to finance entry into an international market can be particularly difficult. Your international customer may not be open to providing advance or interim payments, and your Canadian bank may not be willing to provide a loan or line of credit to finance the work-in-progress. Even worse, your customer may insist on a performance bond, further exacerbating your working capital situation.

Another common issue is the risk of dealing with an international receivable. You are exposed to a number of risks, including currency fluctuations, customer default and political risk.

Bottom line; as challenging as it is to manage a domestic business, managing international business can be even more difficult. As a young company with limited experience and resources, you are faced with some unpleasant possibilities – you may not be able to secure your international deal, or worse, it turns out very badly for you. But none of these challenges are new. There is lots of experience to draw on. And, fortunately, there is other valuable assistance available as well.

### **How EDC can Help**

EDC has developed a full portfolio of services to assist Canadian exporters (see the profiles below), which can help you:

- Manage your receivables
- Access more working capital
- Grow your international sales
- Research potential customers

The EDC website ([www.edc.ca](http://www.edc.ca)) offers a wealth of information about EDC's services. In addition, the website provides access to online resources, including country profiles, export publications and guides, online tools and an Exporting 101 package. EDC has also created a "Canadian Exporting for Dummies" guide that you can order online for free at [www.edc.ca/dummies](http://www.edc.ca/dummies). The EDC website is a great place for new exporters to start educating themselves about the complexities of international business.

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In addition to online resources, EDC has a nationwide network of experienced advisors and account managers who can provide customized advice and assistance. EDC has a presence in most major Canadian cities as well as many strategic foreign markets. See the [www.edc.ca/english/8522\\_contact\\_us.htm](http://www.edc.ca/english/8522_contact_us.htm) for locations or call **1-866-283-2957**.

### **Profile: EDC Insurance Solutions for Canadian Companies**

(Source: [www.edc.ca/insurance](http://www.edc.ca/insurance))

Flexibility. Security. More working capital. These are some of the benefits of EDC's business insurance. By mitigating commercial risks, you can expand your sales capacity and motivate your bank to extend more working capital to your company.

Whether for one sale or project, or multiple contracts, EDC has the insurance solution to cover you.

**Accounts Receivable Insurance** covers your receivables up to 90 per cent of losses resulting from commercial or political risks.

**Single Buyer Insurance** covers unlimited sales to one customer for six months on contracts worth up to USD\$250,000.

**EXPORTProtect** covers single export transactions for up to USD\$250,000.

**Contract Frustration Insurance** covers up to 90 per cent of your losses for one export contract.

**Political Risk Insurance** protects your overseas assets, including equipment and manufacturing facilities.

**Performance Security Insurance** covers up to 95 per cent of your losses if your customer demands payment of a bond issued by your bank without valid reason.

### **Profile: EDC Financing Solutions for Canadian Companies**

(Source: [www.edc.ca/financing](http://www.edc.ca/financing))

Companies often need financing to support their international transactions: to pay for the up-front costs associated with the production of a large export order, to expand into new markets or to respond to a buyer's request for financing.

**EXPORT Express Credit** is tailored to the needs of small business and provides unsecured loans to help you grow your export business.

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**Export Guarantee Program** enables you to obtain loans from your financial institution to provide you with the financing you need for your export-related activities or foreign investments.

**Supplier Financing** provides you with access to cash rather than waiting for payment from your foreign buyers.

**Security Compliance Loan** provides financing to help pay the costs of upgrading your security programs to comply with U.S. cross-border regulations.

**Equity Investments** helps you access equity and venture capital to grow your international business.

**Project Finance** provides project sponsors with access to limited-recourse financing for large-scale global infrastructure and industrial projects.

**Buyer Financing** can help you offer your customer extended payment terms by providing them with financing for an export sale of capital goods and/or services.

## **Profile: EDC Bonding Solutions for Canadian Companies**

(Source: [www.edc.ca/bonding](http://www.edc.ca/bonding))

If doing business with foreign customers is tying up your working capital, we have a solution. We can help free up your money by providing guarantees to your bank so that they, in turn, can issue guarantees to your customers and suppliers.

A **Performance Security Guarantee** fully protects your bank in the event of a call on a contractual guarantee they issued on your behalf.

**Surety Bond Insurance** fully protects your surety company in the event of a call on a contractual guarantee they issued on your behalf.

A **Foreign Exchange Facility Guarantee** gives your financial institution a guarantee in lieu of collateral so you can buy a foreign exchange contract to protect against currency fluctuations.

A **Financial Security Guarantee** replaces the collateral you usually need to secure a variety of payment guarantees, including operating lines of credit with foreign banks, letters of guarantee for suppliers, regulatory bodies, utilities, etc.

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## Case Study: ITS Electronics and EDC

ITS Electronics is a 22-year-old Canadian designer and manufacturer of high tech components for the microwave industry (see Profile below).

Eight years ago, the company wanted to make a strategic change to their business. According to ITS Electronics founder and president Ilya Tchaplia, "At that time, we were primarily a component parts supplier, which meant we were at the low end of the food chain. We wanted to become a subsystem supplier, effectively moving up the food chain. This would allow us to charge higher margins and build a stronger position in the industry. "

*"EDC products helped ITS obtain better financing facilities with the bank which gave us the working capital to execute our strategic plan. In effect, EDC helped us to become a major force in our industry."*

Ilya Tchaplia  
President and CTO  
ITS Electronics Inc.

However, financing the working capital proved to be a problem, as the company's bank wouldn't agree to provide the financing required for the initiative. Exploring his options, Tchaplia called EDC and was connected with Senior Account Manager Chris Despond. Chris was able to help ITS Electronics obtain the financing it needed.

### **Profile: ITS Electronics Inc.**

ITS Electronics is a 22-year veteran of the microwave industry and a leading global supplier of advanced microwave (mw) and millimeter wave (mmw) Radios, Solid State Power Amplifiers and Frequency Converters.

Their products are sold to the leaders in the Airborne Data, Satellite Data, and Fixed Wireless markets, such as Boeing, Lockheed Martin, NASA and both the U.S. Department of Defense and the Canadian Department of National Defense.

ITS Electronics Inc. employs 70 people, over 40% of whom are engineers, and is led by an experienced Management Team, supported by an experienced on-shore network of manufacturing partners.

For more information, visit [www.itselectronics.com](http://www.itselectronics.com)

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Ilya Tchaplia recalls, "EDC helped us obtain better financing facilities with the bank, which allowed us to increase the offering from a component level to a subsystem level. What this did for us was open up more opportunities, make us more important to our customers and create significant growth, which allowed us to hire more people and expand."

In the years since, ITS Electronics has also expanded their use of EDC's services. As Tchaplia explains, "We now use many EDC services. For example, with EDC receivables insurance the bank is willing to margin factor at 90% of the receivable instead of 75%, which allows us better access to working capital. A Foreign Exchange Guarantee allows us to hedge against currency fluctuation, which is very important in our U.S. contracts. The Export Guarantee program helps provide the working capital that allows us to invest in the development and marketing with our large aerospace OEMs and then collect when the products are delivered. Now we are working with EDC on new solutions for our growing business."

### **Working with EDC**

A lot of information about EDC's services is available online, but the best way to access these services is to talk with an EDC representative. EDC's network of account managers and advisors are available to help companies across Canada. The best way to start is with an email or phone call to EDC to set up a meeting.

EDC likes to work closely with their customers to ensure that they understand their business and their challenges. This allows EDC to bring the right services to the table. Although the services are well defined, there is enough flexibility built-in to allow them to be customized to meet individual client needs.

Relationships between EDC and its customers often last many years, and the services involved tend to grow and change over time. Although many of EDC's customers are young or small to midsize businesses, in today's challenging environment, many established companies are coming to EDC for the first time. In particular, with banks tightening their lending criteria, these companies are finding that EDC's services are allowing them to manage risks and gain access to valuable working capital.

*"EDC tries to develop long-term relationships with our customers. The better we understand your business the more we can come to the table with the products and services that will make a difference."*

Chris Despond  
Senior Account Manager  
EDC

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## **In Summary**

Canadian governments, at the national, provincial and municipal levels, have been very strong supporters of Canadian business. Aside from striving to create a political and economic environment in which business can thrive, they have been very proactive in creating programs and agencies to help Canadian businesses succeed.

This paper has looked specifically at the services of Export Development Canada, a Crown corporation specifically created to advance Canadian business growth in international markets. In particular, we have looked at their innovative financing, insurance and bonding solutions can be used to expand the growth of Canada's technology ventures in the international marketplace, as illustrated by the case of ITS Electronics Inc.

EDC is the primary government organizations targeted with supporting sales activities, and the organization has demonstrated its creativity by continuing to develop innovative solutions for many companies struggling to manage cash flow in a globally competitive environment. Specifically EDC works alongside a company's bank to reduce their risk and allow them to provide more support, while also providing direct access to direct funding. It would seem that companies looking to develop international markets could all benefit from meeting with their local EDC representative as well as accessing services available through DFAIT (discussed last month).

In future Ready Set Grow webinars, we will look at the programs and services available from other government initiatives.

## Results of Real-time Poll

Below are the results of the four polls conducted during the webinar:

### Poll #1 What is your level of experience with EDC services?

(Choose all that apply)

- |                                                            |     |
|------------------------------------------------------------|-----|
| <input type="radio"/> I have used EDC services in the past | 28% |
| <input type="radio"/> I am currently using EDC services    | 17% |
| <input type="radio"/> I hope to use EDC services in future | 67% |
| <input type="radio"/> None of the above                    | 22% |

### Poll #2 Which of the following EDC services would be relevant for you now or in the near future? (Choose all that apply)

- |                                                                        |     |
|------------------------------------------------------------------------|-----|
| <input type="radio"/> EDC's Account Receivable Insurance (ARI)         | 59% |
| <input type="radio"/> EDC's Bonding Services                           | 12% |
| <input type="radio"/> EDC's Financing                                  | 53% |
| <input type="radio"/> These are not relevant now but will be in future | 35% |
| <input type="radio"/> None of the above                                | 0%  |

### Poll 3 Which of the features of the Ready, Set, Grow webinar series have provided value for you? (Choose all that apply)

- |                                                                          |      |
|--------------------------------------------------------------------------|------|
| <input type="radio"/> Presentations by subject matter experts            | 100% |
| <input type="radio"/> Case studies featuring tech industry CEOs          | 50%  |
| <input type="radio"/> Panel discussions featuring subject matter experts | 63%  |
| <input type="radio"/> Real-time Polls of the attendees                   | 13%  |
| <input type="radio"/> Interactive Q&A sessions                           | 0%   |
| <input type="radio"/> Post session summaries of the discussion           | 63%  |
| <input type="radio"/> Recommending reading lists for each topic          | 13%  |
| <input type="radio"/> Lists of useful web-sites                          | 38%  |

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**Poll 4 Which topics would you like to see addressed in future Ready Set Grow webinars?** (Choose all that apply)

○ How to start a business	22%
○ Access to Angel and Venture financing	67%
○ Access to non-equity financing	56%
○ Building a High Growth Business Plan	44%
○ Market research and market validation	44%
○ Increasing sales and marketing effectiveness	22%
○ Penetrating foreign markets	11%
○ Government programs and assistance	78%
○ Making Channels and alliances work	22%
○ Patents and IP protection	33%
○ Business Valuation	22%
○ Building the right team	11%
○ Critical factors for entrepreneurial success	11%
○ Other	0%

Note that all questions allowed multiple answers, therefore percentages will not add to 100%.

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## Links of Interest

Export Development Canada <http://www.edc.ca>

Canadian Association of Importers and Exporters  
<http://www.importers.ca/>

Canadian Manufacturers & Exporters <http://www.cme-mec.ca>

International Chamber of Commerce <http://www.iccwbo.org/>

Credit Institute of Canada <http://www.creditedu.org/>

Service Canada [www.servicecanada.gc.ca/](http://www.servicecanada.gc.ca/)

Business Development  
Bank of Canada <http://www.bdc.ca>

Canadian Innovation Centre <http://innovationcentre.ca>

Technology Marketing  
Resource Centre <http://www.tmrc.ca>

Canadian Advanced Technology Alliance <http://www.cata.ca>

## Articles and Books of Interest

Exporting for Dummies

Available via [http://www.edc.ca/english/publications\\_11934.htm?cid=red1608](http://www.edc.ca/english/publications_11934.htm?cid=red1608)

Exporting to the USA , Edward G. Hinkelman | World Trade Press | July 16, 1999

Accessing Government Funding in Canada

[http://www.canadaone.com/magazine/accessing\\_government\\_funding.html](http://www.canadaone.com/magazine/accessing_government_funding.html)

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