Raising financing during turbulent times — Debt capital options for tech companies

April 28, 2021

On March 11, 2021, the Autonomous Vehicle Innovation Network (AVIN) and Borden Ladner Gervais LLP co-hosted the third installment in a series of webinars presenting the views of leading experts in financing technology companies of all sizes, and their advice with regard to debt financing options for tech and innovation companies.

The webinar featured an impressive panel consisting of:

- Manoj Pundit, Partner, Borden Ladner Gervais LLP
- Randy Garg, Founder & Managing Partner, Vistara Capital Partners
- Amy Olah, Managing Director, CIBC Innovation Banking
- Duncan Robinson, Director Growth & Transition Capital Southwestern Ontario, BDC

An insightful discussion ensued and below are some key takeaways from the panelists' comments with regard to three topics: (1) strategic advice for transitioning technology businesses experiencing significant growth during the COVID-19 pandemic into the post-pandemic "new normal", (2) determining when founders should consider debt vs equity financing, and (3) practical advice for early stage companies.

What was it like financing companies throughout the pandemic, and what do you see as the impact of the transition to a new "post-pandemic normal" on your ability to provide financing?

- Financiers today are flush with cash and gearing up to invest in companies operating within industries accelerated by the COVID-19 pandemic. As a result, there are many opportunities for technology companies to secure debt and/or equity financing, regardless of the stage of the business, so long as the company has strong fundamentals and strong prospects for success.
- **Understanding how to extend your company's capital runway beyond the pandemic (12-18 months) will be key to securing future financing**, as financiers

look for investment opportunities in resilient companies with sustainable cash flows and positive unit economics.

- Lenders are becoming more open minded with respect to potential investments due to the significant growth experienced in the technology sector during the COVID-19 pandemic. Adaptability and long-term scalability, however, remain primary factors in determining if a potential financial investment is feasible.

What key factors will influence a company's ability to secure financing, and when should founders consider debt vs equity financing?

- There is no clear overarching formula for determining when a company is ready for debt financing. However, common themes from the panelists included:
  - positive unit economics;
  - repeatable revenues among specific target customer groups;
  - sustained growth in revenues;
  - a fundamental understanding of burn rate, current runway, and churn;
  - competency and experience in management; and
  - prior successes at raising equity capital.
- In deciding between debt and equity financing, it ultimately comes down to the stage of the company and the timing of the financing. As a rule, **debt financiers are typically looking to finance companies that are post-commercialization**, meaning the company's product is scalable and generating repeatable revenues with diverse customers.
- Even if a company is pre-commercialization, solid unit economics and a captivating overall business model could compel a lender to finance the company using more debt than equity. However, some elements of equity investment are common to many venture debt financings, whether in the form of warrants or convertible shares.
- **Businesses at more formative stages will tend to attract equity investment due to the greater risk taken on by the investor**. Though equity investments may leave less equity in the hands of founders, in the event an exit occurs, it is also better they align the goals of the financier with the goals of the founder by ensuring both are more strongly motivated to make the company a success.
- Irrespective of the stage of your company or the investment being sought, it is important to engage in conversations with your financial institutions regarding possible financing opportunities as early as possible. The greater the notice provided to your financial institution, the better context they will have to see the progression of the business, and the more likely you are to secure stronger financing terms.

What practical advice do you have for early stage companies?

- In general, the longer you can bootstrap a company the better the prospects of holding more equity come an exit opportunity. However, **do not overlook the accelerative value of a large financial investment into your company**, particularly if your company faces financial constraints preventing it from reaching its maximum potential.

- Understand the key metrics of your business and recognize how to provide high quality information to potential financiers. A strong slide deck with robust financial and performance data can go a long way in securing favourable financing terms.

There are many financing options in the market, but do not try to over optimize your financing at the expense of distracting your focus on growing your company. Do not forget that a lender is also a partner – while you should shop around for the best deal, also understand that different financiers bring different things to the table. The value a strong partner brings to your business could be priceless, particularly when things do not go according to plan.

By

Manoj Pundit, Shane Morganstein

Expertise

Capital Markets, Autonomous Vehicles, Transportation, Renewable Energy

---

BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

BLG, you may ask to remove your contact information from our mailing lists by emailing unsubscribe@blg.com or manage your subscription preferences at blg.com/MyPreferences. If you feel you have received this message in error please contact communications@blg.com. BLG's privacy policy for publications may be found at blg.com/en/privacy.