

How Quarterly Advanced Funding Accelerates Your Growth

As a new Founder sets off to research how to grow and scale their startup, they'll often come up against the fundraising wall: what is the best avenue for fundraising as a startup, debt or equity?



Approximately 75% of Silicon Valley startups leverage some sort of debt or non-dilutive financing options on their cap table prior to their seed round—compared to 15% in Canada. It seems Canadian startup Founders tend to be more conservative in their fundraising quest, however, it's time to rethink this strategy.

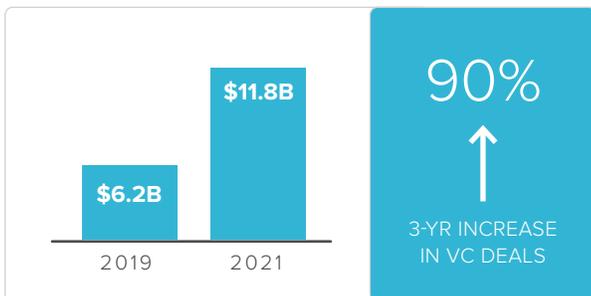
Nearly 100% of all startups that have successfully secured a Series A fundraising round have some form of debt on their cap table. This allows entrepreneurs to optimize their capital structure very early in the startup journey and in doing so, they can increase their chances of long-term fundraising success significantly.



Given the explosive growth of the Canadian startup ecosystem, the competition for fundraising is fierce.

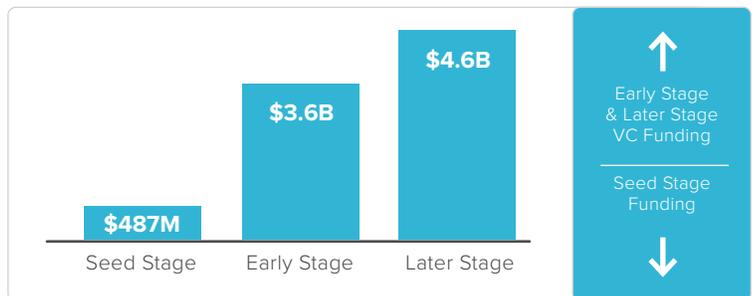
The Growing Opportunity for Tax Incentive Funding

By the end of Q3 2021, \$11.8B CAD was invested across 568 deals, a 90% increase over the highest annual VC investment of \$6.2B recorded in 2019.



Average deal size nearly doubled since 2019, the previous highest year on record; later stage deals saw 4x in average deal size over the last two years.

By the end of Q3 2021, \$487 million was invested in 156 seed-stage deals compared to more than \$3.6 billion in 223 early-stage deals. While early-stage investment (Series A and B) appears to have risen, seed investment in Canada remains low.



Seed-stage investment in Canada remains low, but non-dilutive funding from eligible tax credits is a viable option for seed and early stage companies.

As a result, many entrepreneurs will choose to do an angel investing round through their friends and family, but what's next? Depending on the startup, there are multiple avenues to explore, especially when it comes to grants and tax credit programs offered by the Canadian government to fuel the local startup ecosystem.



\$4.1B | 20,000 BUSINESSES

Every year, the Canadian government provides more than **\$4.1 billion** to over **20,000** businesses as part of the Scientific Research & Experimental Development (SR&ED) tax credit program to offset R&D costs.



CLAIM THOUSANDS

Any startup that conducts SR&ED eligible R&D activities can take advantage of SR&ED and claim thousands of dollars from the government on an annual basis.

As companies perform R&D activities throughout the year, they are accumulating SR&ED tax credits and building up an asset, which can't be unlocked until tax returns are submitted and the SR&ED refund is received. This entire process typically takes 9+ months from the end of the fiscal year, slowing the rate at which businesses can re-invest the refund back into the company.

Eligible Businesses Can Claim



12-16
MONTHS

The caveat is that businesses have to wait **12-16** months to re-invest their SR&ED refund back into the company's operations for growth.

Entrepreneurs with SR&ED-qualifying businesses have the option of leveraging SR&ED Financing through which they can successfully receive a cash advance against the accrued SR&ED refund. This allows the entrepreneur to leverage their business's SR&ED refund up to one year early and accelerate their company's growth.

Traditionally, SR&ED Financing was available to credit-worthy applicants as a bridge loan, issued after the fiscal year-end when the claim has been finalized. If a business chooses to apply for traditional SR&ED Financing, they're able to take advantage of their SR&ED refund only 2-3 months early.

Benefits of SR&ED Quarterly Advanced Refunds

No need to give up equity, board seats, or PGs

Cash flow to extend your runway before an equity round and to hire talent for growth

Optimize your capital structure (via minimizing cost of capital)

Get enough capital for expenditures

Secure financing options for bargaining leverage

Access Quarterly Advanced Refunds in <2 Weeks with Boast



75%

Unlike traditional SR&ED Financing models with financial institutions, Boast lends up to 75% of the quarterly accrued R&D expenditures to early stage, pre-revenue, high-growth businesses.

Additionally, Boast can provide this advanced funding as early as 3 months into the tax year (i.e., more than one year before the SR&ED claim is filed), which can dramatically impact the growth trajectory of any business.

This non-dilutive capital extends the cash flow runway and provides the financial flexibility needed to make better decisions about scaling the business. The compounding effect of adding additional sales, marketing and development resources 12 months early often leads to 1.5x higher valuation over a 24-month period.

Quarterly Advanced Refunds Illustrative Example: Acme Corp. and Globex Corp.

Acme Corp. and Globex Corp. are both Canadian SaaS startups taking advantage of SR&ED with similar growth trajectories initially:



FINANCIALS FOR ACME CORP.

Acme Corp	Q1 Y1	Q2 Y1	Q3 Y1	Q4 Y1	Q1 Y2	Q2 Y2	Q3 Y2	Q4 Y2
Revenue	\$100,000	\$115,000	\$132,250	\$152,088	\$174,901	\$201,136	\$241,363	\$289,635
Growth Rate		15%	15%	15%	15%	15%	20%	20%
SR&ED Refund						\$300,000		

While Acme Corp. decided to wait to receive their total refund, Globex Corp. decided to leverage Quarterly Advanced Refunds. Since the SR&ED refund that Globex will receive amounts to \$300K, they are able to receive \$56,250 every quarter to re-invest back into the company’s operations.

FINANCIALS FOR GLOBEX CORP.

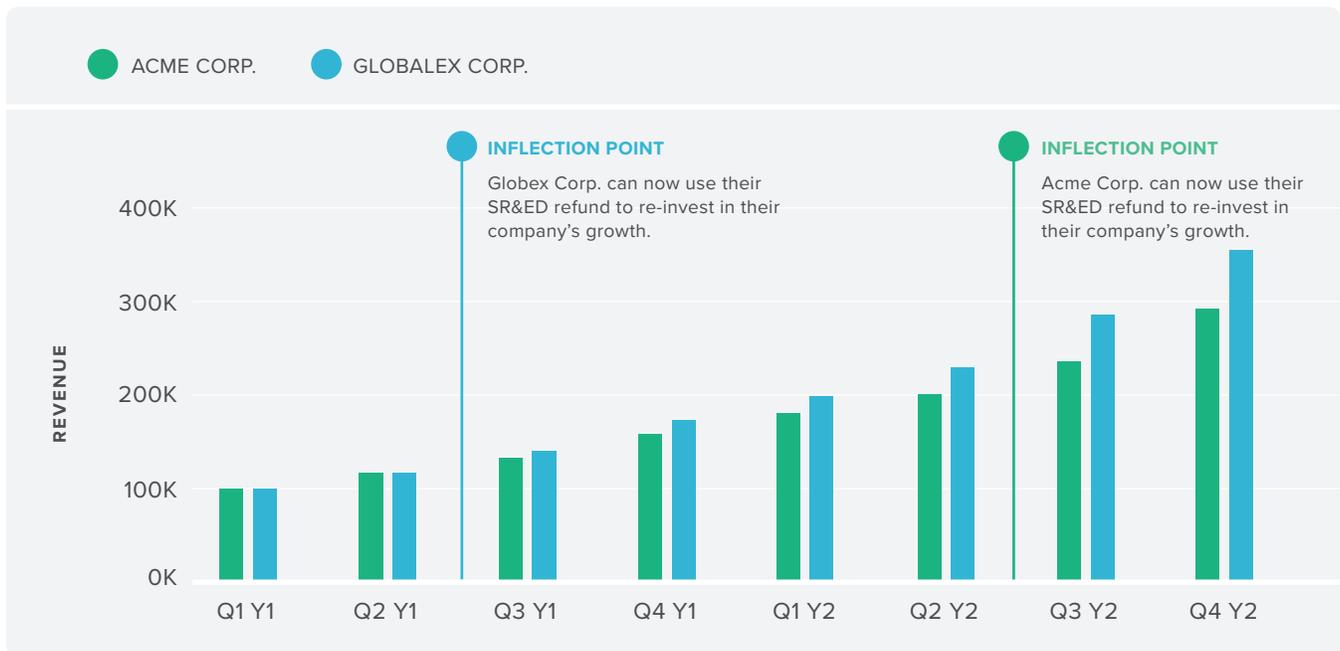
GlobalEx Corp.	Q1 Y1	Q2 Y1	Q3 Y1	Q4 Y1	Q1 Y2	Q2 Y2	Q3 Y2	Q4 Y2
Revenue	\$100,000	\$115,000	\$138,000	\$165,600	\$198,720	\$238,464	\$286,157	\$343,388
Growth Rate		15%	20%	20%	20%	20%	20%	20%
Advanced Refunds					\$56,250			
Accrued Interest Cost		\$1,969	\$3,938	\$5,906	\$7,875	\$1,969	\$3,938	\$5,906
Draw Fee					\$563			
SR&ED Refund						\$300,000		

While there are fees associated with using SR&ED Financing (1% interest with a 14% draw fee), after accounting for the total costs to leverage SR&ED Financing, the effective interest rate becomes 7.88% over two years.

Total Interest Cost	Total Draw Cost
\$31,500	\$3,938
Total Cost	Effective Interest Rate
\$35,438	7.88%
(Annual cost: \$17,719)	

EFFECTIVE INTEREST RATE =
 (Quarterly Accrued Interest Cost + Quarterly Draw Fee)

 Principle



REVENUE GROWTH FOR ACME CORP. VS. GLOBEX CORP.

Given that both companies had an initial growth rate of 15%, once Globex Corp. received their cash advance in Q2 Y1, their growth rate jumped to 20% beginning Q3 Y1. As a result, Globex Corp's Q2 Y1 revenue jumped to \$138K, while Acme Corp's revenue only grew to \$132K.

The big question: How does this impact the overall valuation for Acme Corp. and Globex Corp.?



AFTER 2 YEARS, THE DIFFERENCE IS SIGNIFICANT

Acme Corp.		GlobalEx Corp.	
\$289,635	\$11,585,417	\$343,388	\$13,735,526
Revenue	Valuation	Revenue	Valuation

\$2,150,109
Difference in valuation after 2 years

For a cost of only \$17,719 per year, Globex Corp. was able to increase their valuation by over \$2 million, which translated into an internal rate of return of 5,967%. In addition, it took Globex Corp's internal team minimal resources to qualify for SR&ED Quarterly Advanced Refunds (approx. 5-6 hours in total).

Given the reduced time and effort it takes to gain predictable cash flow by using SR&ED Quarterly Advanced Refunds, every early stage tech founder should be leveraging this form of non-dilutive capital to accelerate their company's growth.

Non-Dilutive Financing FAQ

Why should my business go into debt over offering equity?

There are a lot of upsides in using SR&ED Quarterly Advanced Refunds. Compared to the 20-30% interest rate for equity, the interest rate for SR&ED Financing is only 14% with an effective interest rate of approximately 8%. More importantly, Founders maintain full control over company operations and when it comes to returning the capital, you only have to return the principal and the interest once you receive your SR&ED refund.

To understand how non-dilutive funding (e.g. SR&ED Quarterly Advanced Refunds) compares to other forms of debt and equity, take a look below.

NON-DILUTIVE FINANCING

	Venture Capital	Private Equity	Revenue Financing	Venture Debt	SR&ED Quarterly Advanced Refunds	Senior Debt
Cost of Capital	40-80% >10X	20-30% >3X	15-25% ~3X	15-25%	14%	4-8%
Dilution	High	High	Light	Light	None	None
Security	Liquidation Preference	51% Control	Subordinated, few covenants	Subordinated, few covenants	Subordinated, no covenants	Subordinated, no covenants
Duration	Permanent	Permanent	Entrepreneur Controlled	2-4 Years	<12 Months	2-4 Years
Control	Board rights, investor rights	Board rights, investor rights	Few covenants, no board rights	Substantial covenants, sometimes board rights	No control	Security substantial covenants, restrictions
Return	Sales IPO, dividend, return principal	Sales IPO, dividend, return principal	Royalty, buyouts, warrants	Sales IPO, dividend, return principal	Principal + interest repaid upon refund	Return principal

FAQ

What if my business has other forms of debt already? What will the repayment structure look like?

Boast's Quarterly Advanced Refunds offering is subordinated to your other debt obligations and has no covenants. It's similar to a rolling line of credit where the principal and interest is accrued and paid back only once the SR&ED refund hits your bank account.

Can't I just go to a bank to get any loan for my business?

Senior debt or Bank debt is harder to qualify for and typically requires a monthly recurring revenue (MRR) greater than \$150,000. It can also include a personal guarantee and is always senior in terms of creditor priority on assets of the company.

How soon after the quarter end can we receive the advance?

If you choose to engage Boast, you will be able to access your Quarterly Advanced Refund within the first couple days of the new quarter. Our proprietary platform integrates with your tech stack which allows our team to capture insights and estimates of your quarterly SR&ED eligibility.

What is the cost of SR&ED Quarterly Advanced Refunds?

The posted cost of the SR&ED Quarterly Advances Refunds is 14% annual interest rate, compounded monthly. However, because the principal is only outstanding for months on average, the effective interest rate is -% calculated as interest cost / total principal.

What dilution should I expect from SR&ED Quarterly Advanced Refunds?

Unlike SAFEs, Convertible Debentures, Equity and even Venture Debt, SR&ED Quarterly Advance Refunds has ZERO dilution associated with it.

What security is required for SR&ED Quarterly Advanced Refunds?

The SR&ED quarterly advance is secured by the SR&ED refund itself with no personal guarantees. A general security agreement registered under the PPSA (subordinated) and an Intercreditor Agreement with all other secured lenders providing first priority on proceeds from SR&ED Refunds. Convertible debt holders are required to subordinate security on all assets.

What kind of control do I give up with SR&ED Quarterly Advanced Refunds?

Unlike SAFEs, Convertible Debentures, Equity and even Venture Debt, SR&ED Quarterly Advanced Refunds has ZERO control associated with it with no covenants required.

How do I pay off the SR&ED Quarterly Advanced Refunds?

The principal, interest, and advance fees are paid directly from the SR&ED refund with no intermittent payments and no prepayment penalty, meaning you can pay off the existing principal and interest at any time.

WHY WORK WITH BOAST



Larger Refunds



Less Time



Quarterly Advanced Refunds



Reduced Audit Risk



Technical R&D Tax Experts

ABOUT BOAST

Boast works with innovative Canadian businesses to recover their SR&ED costs from the government. Our team of engineers & accountants leverage our proprietary Boast software platform to proactively prepare and estimate your claims throughout the year allowing you to access your accrued ITCs on a quarterly basis. Using Boast, our clients have maximized their R&D claims with less time and audit risk. For more information, please visit www.boast.ai.