



NATI Response to Wage Subsidy Stimulus – April 2, 2020

NATI supports the 75% wage subsidy announced by the Federal Government as a significant first step for Canadian Businesses. As the voice of the technology and innovation sector in Newfoundland and Labrador, NATI is advocating to further fine tune this subsidy and extend the parameters to make it more broadly applicable. The 30% loss of revenue required to qualify for the subsidy excludes a large number of organizations in the technology and innovation sector, including startups, pre-commercial, SaaS (Software as a Service) and other recurring revenue companies.

A startup, or an early stage technology company, cannot show a 30% reduction in revenue if they are pre-commercialization and do not have sales revenue. Staff have been hired based on capital raised from government sources and/or private investors to grow the company and to bring the innovation to market. Hiring decisions are made based on growth over the coming 12-24 months. Because consumers have stopped buying software and technology during this crisis, it has completely disrupted the plans of these companies and there is no certainty around cash flow for the foreseeable future. Difficult decisions are being made today regarding staffing levels, which may force many startups to do mass layoffs to stay in business long enough to survive the crisis and rebuild.

SaaS and other recurring revenue companies charge customers a regular fee, often in one, three, or five-year contracts and customers often pay monthly or in advance. These organizations may not be able to show reductions in revenues today, however their growth has evaporated. Recurring revenues may continue for the sales made to date, artificially inflating revenue levels. However, their growth trajectory has disappeared.

By their nature, many technology companies are on fast growth trajectories and have staffed up over the past year to meet demand – comparing revenue levels from March 2020 to revenues from a year ago does not reflect how sharply revenue levels have fallen.

The future of Canada's economy is in the high tech and innovation sector. The Federal Government and private sector have invested billions of dollars building a pipeline of intellectual property and innovative companies. It is finally booming in Atlantic Canada and the entire country. If we do not support these companies because they do not meet the 30% revenue reduction criteria, they will be forced to lay off-staff. This resulting loss of momentum will be felt for the next five to ten years as these companies will have to rebuild. The province's economy will be playing catch up and previous investments will be negatively impacted. We must position the sector to not only survive the current crisis but emerge strong, driving new technologies and innovations forward that support future growth of the Canadian economy.

Prior investment by the government and private industry in the growing tech sector needs to be protected. We must not allow tech sector companies to be forced to lay off people, losing highly qualified human capital and intellectual property. Companies need to be equipped now with resources to help them hit the ground running when the crisis has subsided, allowing them to continue the momentum.

We are asking the Federal Government to examine the wage subsidy criteria and expand the parameters of the 30% decline in revenue test. The intent of the revenue test appears to be a proxy indicator to determine which companies have needs, but for some organizations it is not a key indicator. The wage subsidy is meant to support organizations significantly impacted by COVID-19 to help them avoid layoffs. With that overarching goal



in mind, we need a different, or at a minimum expanded, set of criteria. NATI is happy to work with the government to assist in developing the criteria.

To help address this gap in the wage subsidy criteria, and to support disbursement of funding in a timely manner, the Regional Development Associations (RDAs) like ACOA (Atlantic Canada Opportunities Agency) and the National Research Council (NRC) should be leveraged, along with local provincial government departments and agencies, such as the Government of Newfoundland and Labrador's Department of Tourism, Culture, Industry and Innovation (TCII). They know the local markets, have deep understanding of the local firms, and are best positioned to determine which organizations are in need of the wage subsidy. We recommend a significant, nimble fund issued through the RDAs and with support from provincial governments as appropriate.

The Canadian economy must not only survive this crisis. We need to emerge from the COVID-19 pandemic healthy, stronger and more globally competitive. We need to invest in the technology and innovation sector and make sure we do not lose the momentum that we have all been building and investing in for decades.

Paul Preston
CEO, NATI

Craig Rowe
Board Chair, NATI & CEO, ClearRisk

About NATI

The Newfoundland and Labrador Association of Technology and Innovation (NATI) is a not-for-profit industry association that works closely with members, industry and government to help shape policy and advocate for those issues that matter most to members. As the voice of the \$1.6 billion technology sector in NL, our mission is to help members grow and scale through our work on talent development, programming, technology advocacy, digital transformation, and strategic partnerships. More information can be found on the website nati.net.