



**Tech Futures:**  
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By [Michael Volker](#)

**The Past/Future Dichotomy, Abatis tops HotHaus, IPO Watch, CPC Done Deals & Capital Pool Corps Update**

### **The Past/Future Dichotomy**

I believe that there's an opportunity to profit from the dichotomy between future expectations and historical performance. I find it amusing that technology stocks on one hand are priced on the basis of future expectations (hence the name of this column, "Technology Futures") yet on the other hand markets determine pricing (especially in the short term) on the basis of past performance.

A slightly lower-than-expected quarterly earnings report can easily knock 30 or 40% off the value of a stock.

For example, **Creo Products Inc** (NASDAQ:CREO) went public exactly a year ago last summer (Aug 12) at US\$15. During the year the stock has traded in the US\$15.62 to US\$52 range, and is currently priced around \$29. In this column a month ago I suggested that it might be a good buy when it was trading at \$21. It had dropped because some analysts were a bit skittish about the fact that Creo's earnings were impacted slightly as a result of some mild indigestion caused by Creo's recent acquisition of Scitex. Well, what did you expect? Of course, there'll be some glitches. But, if you take the long view, it's a better deal this year than it was last year, and one could buy it at near-IPO prices.

The other hot stock of last summer was **Pivotal Corporation** (NASDAQ:PVTL), a North Vancouver software producer which conducted its initial public offering of 3,500,000 common shares last August 5, at a price of US\$12 per share. Pivotal has traded in a range from US\$12 to \$75.82 and, it too, was on sale recently - close to its IPO levels.

What I'm really saying is that by focusing on a company's future potential one can find some buying opportunities as the short-term traders bail out when the ride gets a little rough.

### **Abatis Tops HotHaus**

Last summer, **HotHaus Technologies Inc** was acquired by **Broadcom Corp** (NASDAQ:BRCM) for C\$414 million - the biggest private tech company takeover in B.C. HotHaus was only 5 years old with 50 people.

This summer, **Redback Networks** (NASDAQ:RBAK) announced that it plans to acquire

Burnaby start-up **Abatis Systems** for U\$636 million (i.e. 5.2 million shares of Redback) in order to build Internet-based services, such as videoconferencing and movies on demand, into its networking equipment.

Abatis was founded only two years ago by Adam Lorant and Paul Terry, both former managers with Ottawa-based Newbridge Networks who arrived in B.C. in 1996 to run the ATM (asynchronous transfer mode) research unit acquired by Newbridge that year from MPR Teltech Ltd. (Note - another MPR Teltech spinout! I wonder if BC Tel ever knew what it was giving up!)

Abatis numbers 126 employees. As the Globe's Wendy Stueck noted, that's \$5.3 million per employee!

Sunnyvale, Calif.-based Redback builds networking equipment that allows telecommunications carriers and Internet service providers to offer high-speed Net access, such as digital subscriber line (DSL) and cable.

Redback is a typical Nasdaq success story. Founded in 1996, it began trading publicly in May of last year at \$5.75 a share and peaked in March at \$190, despite posting 1999 revenues of just \$64 million.

It's the second time that Redback has bought a company with a Burnaby connection. Redback acquired Siara Systems Inc. of California which has research and development facilities just around the corner from Abatis.

It speaks well of Canada's prominence as an R&D performer - one of the best countries in the world for doing R&D (in spite of high taxes, it still wins out).

Is this a sellout? I don't think so. History proves that many of the acquisitions stay put and grow here - adding many new stock market millionaires to our high tech scene which, I trust, will all become angel investors themselves to stimulate even more new venture creation activity in the province.

Since the deal was announced, Redback shares gained some \$30 to trade at US\$151. That now values the Abatis deal at more than Cdn\$1 billion!

Another healthy B.C. deal involved a Kelowna software company - **Workfire Development Corp** which was acquired last month for US\$80 million (i.e. 2 million common shares then valued at \$40/share) by **Packeteer Inc.** (NASDAQ:PKTR) of Silicon Valley. Workfire is a 20-person 3-year old company making software to accelerate the performance of internet based applications software. Packeteer itself is not all that large. Last year it reported sales of US\$18.4 million (loss of US\$10.9 million) but its stock is trading around \$45 giving it a market cap of US\$1.23 billion!

Why the generous take-over valuations? U.S. accounting practices permit, under certain conditions, a so-called "pooling of interest" transaction whereby acquirors can effectively issue zero-cost founders shares as consideration for the acquisition. This means that no goodwill appears on the balance sheet which will someday have to be written off - as is the practice in Canada. Although the American practice is under review, in the meantime it lets companies benefit from any inflated valuations on their own stock by using it as the currency which with they can acquire new companies and new talent. Often, the dilution is less than that experienced by employees exercising

their stock options.

So, in the grand scheme of the high tech world, is U\$600m+ a big deal? Look at at this way, Charles Wang, founder of Computer Associates made more than U\$650 million in take-home pay last year (#1 ranked according to Forbes Magazine). That includes U\$645 in stock vesting. Who said life was tough?

### **IPO Watch**

Compared to last summer, it's quiet on the IPO front in B.C. I'd like to be able to report on RTO (reverse take-over) style transactions by which companies go public, but other than the CPC process (see below) it's difficult to cull these from the various stock databases. Referrals and tips are welcomed!

An example of a transaction which is not exactly an IPO, is **VOCALSCAPE Communications** of Vancouver. It is currently awaiting regulatory approval to be acquired by **Blackwater Gold Corp.** (BWG:V). VOCALSCAPE was recently named in the Branham 250 as one of Canada's top fifty web development service companies by National Post Business magazine.

VOCALSCAPE specializes in Voice-over Internet protocol (VOIP) or Internet telephony. The company has a number of products and services which include the VOCALcommerce service that will allow customers to call a company toll-free at the click of a "Call Now" button embedded on a Web site; VOCALvillage, an Internet telephone portal service which will provide telephone conferencing, call management, directories and voice mail; and HelloEarth, which gives travelling executives a unique laptop installed telephone directory from which they can make phone calls to anywhere in the world.

**CST Coldswitch Technologies Inc** (CST) is now completing its IPO and should start to trade on the CDNX (tentative symbol: LS) sometime later next week. CST offered, through it's agent, **Canaccord Capital Corp.**, a total of 4 million common shares at \$1.00 per share. This represents just over 22% of the company on a fully diluted basis.

You can get a full prospectus on the Sedar website at <http://www.sedar.com>.

And in our education corner, let's learn some IPO jargon. This week's question: What is a "best-efforts" offering?. Here's the answer from the EDGAR website: An agreement by which the underwriters of an IPO will do their best to sell the company's shares to the public. Since there is no guarantee of how much capital might be raised for the issuer, smaller companies, or others that have had trouble exciting the major investment banks about their offering, are more likely to use best-effort underwriters. Best efforts offerings were more common pre-1900 (they still are on junior exchanges).

### **CPC Done Deals**

To date, in the 2+ years since the Capital Pool Corps ("CPCs"), formerly Venture Capital Pools, have been allowed in B.C. by the B.C. Securities Commission, only 15 out of more than 100 newly formed companies, have consummated their so-called "Qualifying Transactions" giving them the rite of passage to a regular listed company on the CDNX.

This is actually a good sign insofar as it means that deals are not done hastily without due process. In fact, many get aborted because the due diligence activities undertaken by their boards result in unfavorable findings.

Of the 15 done deals, it looks like most of them are technology deals.

So what deals have been done to date?

Here's a brief summary:

Company	Original CPC Name	Symbol	IPO Price	9Aug00 Price
Analytical Software Inc	Empire Technologies (ET)	AYL.V	0.20	1.22
BCY Ventures Inc	same	BCY.V	0.20	0.62
Bellwether Capital Corp	same	BLW.V	0.20	0.25
Burcon Capital Corp	same	BU.V	0.20	3.90
CHK Wireless Technologies	Ayers Capital Corp (AYS)	CHK.V	0.25	0.79
Daybreak Energy Corp	Empress Capital Corp (EPR)	DBK.V	0.20	0.78
Discovery Capital Corp	Ex Fund (A) Capital Corp	DVY.V	0.20	1.40
DXStorm.com Inc	West Park Resources Inc (WEP)	DXS.V	0.20	0.64
Imagis Technologies Inc.	Colloquium Capital Corp	NAB.V	0.30	3.18
Lasik Vision	FVC First Venture Capital Corp (FVC)	LSK.V	0.20	0.93
P.Z.Resort Systems Inc	IX Capital Inc (IXI)	LLX.V	0.17	0.60
Pheromone Sciences Corp	Mecca Medi-Tech Inc. (MEC)	PHS.V	0.20	1.24
Raystar Enterprises Ltd	same	RYA.V	0.20	0.34
Starfire Technologies Inc	8 Crown Capital Corp (ECC)	SFI.V	0.20	2.90
Zconnexx Corporation	Capital Charter Corp (CLP)	ZXX.V	0.17	0.81

Interestingly, with few exceptions, post-QT stock prices have not risen substantially with respect to pre-QT pricing (sometimes to the contrary). But hey - they're still young!

### Capital Pool Corporation (CPC) Update

In this column, I keep track of Capital Pool Corporation ("CPC") companies (see chart below) as defined by the CDNX because they may provide funding and management to, and in the process acquire, technology companies. CPC's are the continuation of the former VCP and JCP programs on the Vancouver and Alberta Stock Exchanges.

I like CPCs from an investment perspective. Although one may regard them as speculative (indeed, they are), they are also an inexpensive way of getting in early and inexpensively. You can pick up 10,000 shares of a typical CPC for less than \$1.00. And when it does what is expected, you can reap a nice reward. On average, CPC share prices have appreciated over 200% from their IPO pricing. The real money, though, will be made once they complete their acquisitions of real operating companies.

**Empire Technologies** (CDNX:ET) recently completed its Qualifying Transaction, allowing it to graduate from the CPC "board". It acquired **Analytical Software Inc** and

has changed its name to same and is trading around \$1.20 under the "AYL" ticker on CDNX.

Check our [Capital Pool Corporation chart](#) for a complete updated list of the CDNX's CPC and VCP companies, thanks to **David Ing** of **Pacific International Securities**

An introductory article explaining CPCs may be found at <http://www.bctechnology.com/statics/mvolker-jun0200.html>.

### Footnotes

Did you see what happened to **Xillix Tech Corp's** (TSE: XLX) price lately? It recently bounced back to over \$1.00 having recovered from a low of \$.135. Xillix was embroiled in a bitter patent fight with Olympus Optical of Japan. But they've now tossed their sumo wrestling garb and are friends again. Will the run-up continue?

Information on local tech events may be found on-line at <http://www.vef.org>.

For a convenient printable version of this column, [click here](#).

*Michael Volker is the Director of the University/Industry Liaison Office at Simon Fraser University, Chairman of the Vancouver Enterprise Forum, and a technology entrepreneur. He owns shares in many of the companies he writes about. Copyright, 2000.*

### [What Do You Think? Talk Back To Mike Volker](#)

**Tech Futures** is a bi-weekly column that focuses attention on new and emerging BC publicly listed technology companies.

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