



Tech Futures:
December 14, 2001

By [Michael Volker](#)

Eschewing Obfuscation, Year End Checklist, The Innovation Agenda, Good Buys, CPC Comments and Update, and Coming Events

Eschewing Obfuscation

I recently saw the words "eschew obfuscation" on a bumper sticker. It got me thinking about some of the obfuscation in the stock market, especially with respect to corporate performance - i.e. who's making money.

A fundraiser asked me which tech companies in B.C. were profitable so that she might approach them for some sponsorship support. To answer her, I went through the T-Net20 and T-Net100 lists. I'm amazed at how few companies are producing positive earnings. I thought it worthwhile to highlight this information. I guess the question to ask is why are the unprofitable ones not making any money? What's wrong with these companies? Is it because they are still development (R&D) stage firms or is it because they're in a heavy expansion mode or are they simply not well run or managed? (And, I won't even suggest that some of it is due to 9-11, heaven forbid!)

The reasons vary. Some previous top performers such as **Creo Products** (TSE:CRE) and **PMC-Sierra** (NASDAQ:PMCS) are, uncharacteristically, reporting red ink. In Creo's case, they've had extra costs associated with the acquisition of **Scitex** (which turned them into B.C.'s first \$1 billion in sales company) and a slowdown in the demand for pre-press printing hardware while PMC got caught in the telecom sector downdraft (in spite of **Cisco's** accolades for PMC's technology).

Others, such as the biotechs and companies still in the R&D stages of their evolution, e.g. **Ballard Power** (TSE:BLD) have never reported a profit. Yet, of these, **QLT Inc** (TSE:QLT) is reporting one heck of a nice bottom line, thank you. Another biotech, **Angiotech Pharmaceuticals Inc** (TSE:ANP), is just starting to break even, reporting a small \$27k profit on revenue of \$1.1m for the fourth quarter ending in September. A popular infotech company, **Pivotal Corp** (NASDAQ:PVTL) has flirted with profitability and at one point it was running around breakeven but the last four quarters have steadily deteriorated from a U\$4.7 million loss in Dec.2000 to U\$22.6 million in the September 2001 quarter. The ball's in management's court on this one. I wonder if they're exploring their prospects for being taken over? This may be their best route to redemption.

Of course, to be really meaningful, one ought to look at profitability in relation to a company's revenue performance. In the case of **ALI Technologies Inc** (TSE:ALT), their recent quarterly profit figure of \$2.4m may not seem like much, but based on revenues of \$12.3m, that's a great bottom line. ALI has always been one of my favorites - nice, steady increases in revenues and profitability. It may not be one of your meteoric companies, but then again, its performance has stayed in orbit. **Silent Witness Enterprises** (TSE:SWE) has, with recent exceptions, performed like ALI. In its first quarter ended October 31, revenue increased 26% to \$14.1m from \$11.1m a year earlier but earnings were only \$207k compared to \$1.5m. The company reports that this is due mainly to "integration costs" of almost \$1m associated with an acquisition. It chose, to its credit, not to isolate these charges on its income statement, although - to be fair - we ought to add \$1m to the \$0.2m shown in the chart that follows.

Regardless of the reasons for their performance, especially in those companies which are not

performing according to plan (i.e. lack of profitability may be acceptable for development companies if planned for), I can't help but wonder the extent to which Management is taking it on the chin. I noted that the CEO of **Celestica Inc** (TSE:CLS) - the #1 ranked infotech company, and a Canadian one at that - took a one-third pay cut in these tough times. We don't often see CEOs sympathizing with shareholders to that extent. I like it! But, we haven't seen much of that locally! For a quick fit of envy, just go to quote.yahoo.com, enter the ticker symbol of your choice and click on "profile" to view the compensation of your favorite exec. It makes you wonder why salaries keep going up no matter what happens on the bottom line.

Speaking of obfuscation, it is becoming more and more difficult to figure out if companies are really making a profit or not. There seem to be at least three bottom line numbers that get reported (bottom line is now pluralized to "bottom lines"). These are: Net Profit (after ALL possible charges - usually the "worst" number); Operating Profit (Net Profit from operations - excludes non-recurring or special items); and EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization - usually shows how good a job management is doing in operating the business before factoring in taxes, write-offs, etc).

It's not actually that simple. You'll find companies referring to "adjusted net income", for example. Or, how about "normalized net income". And you'll see references to things like "Net Income according to Canadian GAAP" which is different from U.S. GAAP, and so on. Pretty soon, it's investors who are going to have to hire the accounting firms - just to interpret what's being reported!

The real bottom line on all this is that it's not a simple matter to know if a company is making money or not - without lots of qualifiers.

In looking at the Top 20 B.C. firms (i.e. the T-Net20 list), I looked only at the most recent quarter reported by the companies and I used (as much as possible from the obfuscation) the operating profit definition - i.e. all charges (e.g. depreciation, etc. - which is a real cost of doing business) factored in except for non-recurring extraordinary items. For example, in its most recent quarter, **QLT Inc** (TSE:QLT) reported a \$5.6 million operating profit on revenue of \$31 million. It also reported a Net Profit of \$11.6 million (in this case the additional profit arose from the sale of an intellectual property asset, an extraordinary item). On the other hand, if you take a look at **Creo's** (TSE:CRE) financials, you'll see an "adjusted" operating loss (which is sort of an EBITDA) of U\$7.8 million on sales of U\$143 million but a Net Loss of U\$382 million after all of the pre-adjustments! Whew!

Of the Top 20 BC technology firms, only six are making an operating profit! One conclusion I've come to over the years - and it's evident here - is that it is very, very difficult to make a buck and when doing so, the profits are modest. However, when losses are reported, they're often very dramatic! Just look at the size and number of the red figures as compared to the black ones in the chart! If extraordinary items were included, the red numbers would be much larger. I always like to point this out to students who think that Corporate Canada is just one big greedy money machine.

WHO'S MAKING MONEY?

Company	Last Trade	Profit (Qtr)	Market Cap.	More Info
PMC Sierra Inc.	\$27.10	U\$34.5m	\$ 4.5 Bil.	quote/chart , website
Ballard Power Systems	\$48.20	\$23.7m	\$ 4.4 Bil.	quote/chart , website
QLT Photo Therapeutics	\$35.90	\$5.6m	\$ 2.4 Bil.	quote/chart , profile , website
Angiotech Pharmaceuticals	\$81.41	\$0.03m	\$ 1.3 Bil.	quote/chart , profile , website
Creo Products	\$12.72	U\$7.8m	\$ 623.0 Mil.	quote/chart , website
MacDonald Dettwiler	\$25.25	\$7.2m	\$ 893.9 Mil.	quote/chart , website
Sierra Wireless	\$28.00	\$2.9m	\$ 451.2 Mil.	quote/chart , website

Westport Innovations	\$6.27	\$14.3m	\$ 271.1 Mil.	quote/chart , website
Stressgen Biotechnologies	\$4.11	\$7.3m	\$ 209.0 Mil.	quote/chart , website
Pivotal Corporation	\$5.66	U\$22.6m	\$ 135.8 Mil.	quote/chart , website
ALI Technologies	\$18.80	\$2.4m	\$ 198.7 Mil.	quote/chart , website
Inex Pharmaceuticals	\$7.35	\$5.3m	\$ 195.5 Mil.	quote/chart , website
ID Biomedical	\$6.25	\$2.9m	\$ 187.5 Mil.	quote/chart , website
360Networks	\$0.16	\$164m	\$ 118.7 Mil.	quote/chart , website
Burntsand Inc.	\$2.22	\$0.8m	\$ 144.7 Mil.	quote/chart , website
Inflazyme Pharmaceuticals	\$2.02	\$3.7m	\$ 114.6 Mil.	quote/chart , website
Intrinsyc Software	\$2.90	\$0.1m	\$ 93.8 Mil.	quote/chart , website
Anormed Inc.	\$3.42	\$3.7m	\$ 87.5 Mil.	quote/chart , website
Silent Witness Enterprises	\$11.55	\$0.2m	\$ 71.2 Mil.	quote/chart , website
Micrologix Biotech	\$1.09	\$4.6m	\$ 43.0 Mil.	quote/chart , website

Year End Checklist:

It may not be too late yet to do a little tax maneuvering before the year end. Here are some reminders.

1) Capital Gains - if you have capital gains from the past three years, and if you have current year capital losses, you have until December 24, 2001 to sell your dogs in order to use those losses to offset (and recover cash on) previous gains. Even if you don't have previously reported gains, it might still be good to sell some dogs because the losses can be carried forward indefinitely.

2) 30% Tax Credit for BC Investors: BC investors can invest in products such as the **Working Opportunity Fund** or **FutureFund Capital** (CDNX:FFC) and receive a 30% tax credit. Both funds specialize in investing in private companies in British Columbia and are RRSP eligible.

Recent market actions have provided both funds with the ability to invest in junior technology & biotechnology companies at very attractive evaluations that were not available during the strong technology markets.

Working Opportunities Fund: The maximum per investor per year is \$5000 and the hold period is 8 Years. Investment in this fund is at the full estimated market value of the existing portfolio. Working Opportunity is limited to raising \$80M this year and it is expected to sell out early.

FutureFund: The maximum per investor per year is \$200,000, FutureFund trades on the CDNX, hence is liquid at all times (no hold period). FutureFund's existing portfolio is estimated to have a value of approximately \$0.60 per share, their current offering is at \$0.40 per share. It is anticipated this offering will close by December 21st.

3) Stock Donations - I like this one - the government has made permanent the reduced capital gains inclusion rate for charitable donations of publicly traded securities. This "incentive", which was going to expire at the end of the year reduces the amount included in the donor's income to 50% of the amount included for other capital gains. I'm not sure why they don't just reduce it to 0% - it's not an impossibility and it may happen yet. In any event, if you have some losses this year, it might make sense to take advantage of this before Dec 24th or if you're ahead of the game so far this year, then wait until after Christmas to make the contribution. That way, you'll brighten up someone's season and you won't have to worry about the tax due for 15 months. Bottom line: a \$10K stock donation only costs you \$1.2K (approx) in real cash, assuming the entire \$10K is a cap gain. The newly created **Social Venture Partners** - a local charitable organization formed by socially conscious tech entrepreneurs - would be delighted to receive your shares!

4) Bonuses - employees ought to defer any year-end bonuses until the new year so that the bonus will be taxed next year - not this year. You could even get your employer to send the entire bonus -without holding back any tax - to your RRSP. Then, you can claim the RRSP contribution as a deduction *this* year and the bonus won't be taxed until *next* year.

5) Self-employed - for the self employed, it's a good idea to make capital equipment purchases before the year-end so as to be able to claim the capital cost allowance (CCA) this year. For the same reason, it might be prudent to put off a sale of an asset until next year. For those thinking of taking a bonus or dividend, consider putting this off until the new year. This is especially attractive for dividends since there's no withholding tax on these.

6) Check with your advisors - finally, if you're not sure about something, check with your accountant or financial advisor now. You can't set the clock back so now may be the time to act.

Thanks to **Stewart Reid** of **Yorkton Securities** and **Tim Cestnick** of the **Globe and Mail** for some of these tips.

The Innovation Agenda

Our federal government sees the high tech industry as key to our country's future wealth. Here in B.C., the tech industry has been trying to get that point across to provincial politicians for many years and has achieved that with the newly elected Liberal government. Cutting personal income taxes was the main focus of our local industry and in 2001 we finally saw some relief.

To build a strong industry, though, takes more than just tax cuts. We need to encourage investment by having "going-in" incentives as well as "going-out" breaks on income and capital gains. And, most importantly, we need to invest in the natural resources of the tech sector - the human talent and the on-going development of intellectual property at our research institutions.

I found some interesting reading in the fed's parliamentary web site. In June of this year, the **Standing Committee on Industry, Science and Technology** produced its fifth report titled, "A Canadian Innovation Agenda for the Twenty-First Century". The report notes that "Innovation, as founded on Science and Technology, has thus become the principal means for achieving economic success in the twenty-first century." Based on this premise, it follows that an increase in research and development activities is necessary for innovation.

The latest **StatsCan** data (November 2001) gave the total "Gross Expenditures on Research and Development" (GERD) for 1999 as \$17.242 billion. That's the latest year for which actual solid data exists. For 2000, the estimate is \$19.129 billion, an increase of nearly 11%. Projections for 2001 put the GERD at \$20.871 billion, but the StatsCan survey was conducted before the worst of the economic meltdown and 9-11. When the 2001 data become available, it may well be lower than that.

Industry observers know only too well that our GERD-to-GDP ratio, or gross expenditure on R&D per unit of gross domestic product, has averaged 1.5% compared to the **Organization for Economic Co-operation and Development** (OECD) average of 2.2%.

I recall Finance **Minister Paul Martin** declaring just over a year ago that Canada must triple its annual commitment to R&D to \$ 47.5 billion by 2010. Accordingly, new initiatives such as the **Canadian Foundation for Innovation** were launched and increased support for existing government programs was announced.

The **Canadian Advanced Technology Association** (CATA) was calling for the creation of a \$10-billion fund, to pour into the economy in a monitored program. "If the economy begins to recover," said John Reid, CATA's head, "we can cut back on the additional spending, but if the economy continues to decline, we should be prepared to spend it all.

The suggestions put forward by CATA were pretty bold, but in the very least, it gets some debate and discussion going or so I thought until I read an editorial in the **Financial Post** last week in which **University of B.C.** Business Professor, **Paul Kedrosky**, poo-pooed the whole initiative. His piece prompted me to send the following comments to the Post:

I'm agitated by Professor Kedrosky's very negative reaction to the Canadian Advanced Technology Association's (CATA) lobby effort to "Jumpstart the Economy".

At the recent (19-20 November) Conference Board of Canada's Innovation 2001 conference in Montreal, Canada's "innovation gap" was the hot topic of the day. Entrepreneurs are seen as the champions of innovation - they are the ones who bridge the gap between knowledge and consumers - turning inventions into viable commercial products for economic benefit. Taking intellectual capital and monetizing it is not easy - especially early in the innovation chain.

CATA's proposals aim at bridging this gap. As a university professor, one has the right to be critical of new ideas and proposals. And indeed, Prof. Kedrosky has thought of all sorts of flaws with these initiatives. This strikes me as being unduly negative. I have always thought that professors should balance any criticisms with their own contributions and suggestions. Not one positive idea is presented in his attack. I doubt that CATA would expect all of its ideas to be accepted without debate and refinement.

Having been involved in the tech startup game for three decades, there's no doubt that we could be doing more of, as well as doing better in, that which we do fairly well in this country - launching superb technology ventures!

Prof. Kedrosky appears to be falling into the trap that's caught many Westerners - the reluctance to get behind a national initiative that's really going to make a difference. And, this is a national matter.

The technology industry needs a lot more than just a few payroll tax breaks in order for we taxpayers to enjoy the fruits of our investment in basic research. [end of comments]

I cc'd Prof. Kedrosky and he kindly responded to me by noting that it was not incumbent on column-writers to present better ideas than the ones being criticized, especially when the premise is nonsensical. His view is that the suggestions were simply too amateurish and ill-conceived to the extent of being an embarrassment.

While I respect his view, I nonetheless believe that there's still a lot that can be done to position our country as a leader in Science based enterprises. Interestingly, after the budget came down earlier this week, CATA responded by noting that many of its proposals were being heeded and that the government was moving in the right direction with regard to the so-called "Innovation Agenda".

Good Buys

Azure Dynamics Corp (CDNX:AZD) is a UBC spin-off working on hybrid electric-diesel engine technology. Already, **Canada Post** is test driving the product.

I took a read through the resumes of the management team which are all posted on the company's website. It's always reassuring when companies make such information readily available. And, in the case I can see why - the resumes read well and the team appears to have broad range of skills and experience. For example, **David E. Deacon**, President and Chief Operating Officer spent a term as President of the Ontario Liberal party. That points towards good lobbying and communications skills. **Campbell Deacon**, Chairman and Chief Executive Officer, is Chairman of Deacon & Company, a private firm providing assistance and consulting on international and domestic mergers, acquisitions, financings, and business development. From the names and their photos, it would appear that these fellows are brothers. In any event, the latter once served as Chairman of the Investment Dealers Association of Canada - that should mean he's

well-connected in the investment community. He's also currently a director of the following public companies: **Azcar Technologies** (TSE:AZZ), **CPI Plastics Group** (TSE:CPI), and **UTS Energy Corporation** (TSE:UTS).

The company has ambitious plans to produce complete vehicles by early 2004 (in B.C. I hope). I read in **Business in Vancouver** that the company is raising capital to get it to its first milestone of signing a sales contract for its vehicle. I would offer this advice to this and any other tech company raising capital - get your sales contract first. It'll make your valuation better and the task of raising equity immeasurably easier.

Azure got listed on the CDNX in April of this year via a reverse takeover of **Wild Horse Resources Ltd.** Who knows? Maybe you can ride this horse to riches.

One of this year's successfully completed CPC (Capital Pool Co) deals entails the acquisition of **Vantagepoint Systems Inc.** (CDNX:VPG), by **Technology Growth Partners** - a CPC spearheaded by **Sharka Stuyt**, one of the members of the **Pivotal Corp** (NASDAQ:PVTL) founding team. The company's sales picture is looking good and a small profit is being reported.

Vantagepoint began trading on the Canadian Venture Exchange in August, 2001, under the symbol VPG, and raised \$1.1-million in the process. Vantagepoint is in a niche market - ERP and CRM software for the packaging industry. It entered into a strategic original equipment manufacturer reseller agreement with **Pivotal Corporation** (NASDAQ:PVTL) to enhance its Web-based customer relationship management system.

The company also entered into a letter of intent with **Menasha Packaging**, one of the premier packaging companies in North America, to implement Vantagepoint's complete suite of software into its corrugated and specialty packaging plants, including the first implementation of e-solutions customer relationship management.

VPG increased recently reported annual operating revenues by 18% to \$5.7-million while achieving "adjusted income" from operations of \$943,574 (i.e. before income taxes, interest and bank charges, amortization, or management fees). This translates into a real profit of \$49K but, hey, it's a good start. And, it looks like there's a good team (and board) in place to build on that.

For a few other suggestions, see my earlier comments regarding **Working Opportunity Fund** and **FutureFund Capital** (CDNX:FFC).

Capital Pool Corporation (CPC) Comments and Update

In this column, I keep track of **Capital Pool Corporation** ("CPC") companies as defined by the CDNX because they may provide funding and management to, and in the process acquire, technology companies. They provide companies with an alternative to traditional venture capital financing. CPCs are the continuation of the former VCP (Venture Capital Pool) and JCP (Junior Capital Pool) programs on the Vancouver (VSE) and Alberta Stock Exchanges.

Regrettably, though, the program could be working a lot better than it is. The current market conditions, the lack of broker activity, the glut of CPCs, the red tape and the uncertainty over the CDNX's future have all contributed to making the CPC route one of last - rather than first - choice for companies seeking capital.

If you add up all the CPC, VCP, and JCP companies that were formed since Alberta invented the idea back in 1987, you'll find more than 1200 such companies. In total, these have raised more than \$3 billion (yes, that's a "b") for growing companies.

Since the CPC program was launched in B.C. a few years ago, some 300 CPCs have been formed but only a small number, i.e. less than 50, have completed their so-called Qualifying Transactions

(QT). Right now, there are dozens just sitting there with modest amount of cash - usually around \$500K - not knowing what to do with it. Under a relaxation of rules by the CDNX, CPCs are permitted to merge with one another, coincident with acquiring a qualifying company, thereby eliminating the need to raise additional funds.

Check our [Capital Pool Corporation chart](#) (in .pdf format) for a complete list of the CDNX's CPC and VCP companies, thanks to **David Ing** of **Pacific International Securities**. This list is updated on a regular, e.g. monthly basis. It was updated last week to reflect the October and November activities. These are as follows:

New additions to the list are **Advent Energy Capital Inc., Arbour Energy Inc., Blueland Capital Inc., Cardiff Resources Inc., CPL Capital Inc., Ergo Ventures Inc., Innoventures International Inc., Landmark Capital Corp., Phoenix International, Inc., Piper Capital Inc., Red Chip Inc., Spitfire Energy Ltd., Thrust Capital Corp** and **Typhoon Venture Capital Corporation**.

Arbour, Blueland, Cardiff, CPL, Innoventures, Landmark, Spitfire and Thrust are from Alberta. Advent, Ergo and Typhoon are from Quebec. Piper and Red Chip are from B.C. (c'mon B.C. let's go!) and Phoenix is from the United States.

The following companies have come to trade: **Advent Energy Capital Inc., Apsley Management Group Inc., Carvelle Capital Inc., Dev Investments Inc., Dreamtec Inc., Javelin Capital Corporation, One Click Ventures Inc., Predator Capital Inc., Rocky Old Ma Energy Inc.** and **The Ulysses Group Ltd.**

The following companies have been removed from the list because they have completed their Qualifying Transactions (QTs) and are therefore no longer labeled as CPCs: **Arapaho Capital Corp., Escape.com Inc., Glenwood Ventures Inc., Mountainview Energy Ltd., Planet Organic Health Corp.** and **VistaTech Corporation**.

So, there you have it. Go get the money!

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

Coming Up

The next **Vancouver Enterprise Forum** event will be held on January 22, 2002 and the topic is "Finance: Venture Capital, the Banks, and the Market". This is always a popular one and tends to sell out in advance. Details will be available at: www.vef.org. The VEF's new tag line is: "VEF - Advancing Technology Entrepreneurship."

A complete calendar of technology events can be found on [T-Net's Events page](#).

Footnotes

If you're an entrepreneur looking for a place to get your company started, there's some great space available at Harbour Centre downtown. The **New Media Innovation Centre** (NewMIC) and **SFU's TIME Centre** have teamed up to provide not only office space but also access to various resources, e.g. tech advisors, access to capital, mentors, etc. Worried about the high cost of being downtown? Well, not to worry - they'll even reduce the fees and take some payment in the form of equity. Check www.sfu.ca/time for contact info.

A reminder: SFU's TIME Centre is open for business - business folks, that is. TIME is an acronym for Technology, Innovation, Management, and Entrepreneurship. TIME supports the growth and development of the tech industry in B.C. TIME features a "BusinessCentre" (looks like an airport business lounge) which is open to technology entrepreneurs and business people to use as a

drop-in downtown office facility. Need to plug-in? Make some calls? Do some work? Hold a meeting? There are some great facilities for holding your company's AGM. Why hang out at MacDonald's when you can work productively at the TIME Centre? Drop by and check it out! It is located at SFU's downtown campus at 515 West Hastings St.

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

Michael Volker is the Director of the University/Industry [Liaison Office](#) at Simon Fraser University, past Chairman of the [Vancouver Enterprise Forum](#), and a technology entrepreneur. He owns shares in many of the companies he writes about. Copyright, 2001.

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.

Contact: risktaker@volker.org

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