



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

**B.C. Tech Market Strong, IPO's in 2000, Capital Pool Corps Update**

**B.C. Tech Market Strong**

Market-wise, many regard the past year as a market disaster. Not me, though. I'm still very optimistic - especially about B.C. tech companies. Although the year started off splendidly with markets hitting spring-time highs, it ended on a sobering down-note as investors hammered prices.

Canadian markets and in particular, the B.C. component, fared much better than the American markets. In fact, Canada ranked fourth in Merrill Lynch's survey of world markets. The Toronto Stock Exchange was up just over 4% on the year putting Canada just behind China (136%), Ireland (12%), and Switzerland (5%). The U.S.'s Standard & Poor's index was down over 10% while the American NASDAQ (a high tech barometer) was off 38% - its worst year in its 28-year life.

And, what about B.C.? Well, the T-Net20 index of the top 20 B.C. companies, ranked by market value, started the year off at 3892 and closed marginally up around 3920. The market value of the top 20 group at the start of the year stood at \$30 billion. At year-end, due to new entries to the list the top 20 valuation grew to over \$50 billion. Not so shabby (as Harry Jaako would say)!

The fact that our index stayed in positive territory is most encouraging considering that more than half of its value comes from companies listed on the NASDAQ - whose index fell almost 40% during the year. And only 3 years ago, our top 20 was valued at a mere \$6 billion.

So, why am I still so optimistic? It's a matter of perspective - mainly how far you look backwards and how far you look forward. If you look back only over the past year, you might be discouraged. If you look back two or three years, you'll see some nice gains. As for looking forward, I've maintained that our tech sector in B.C. is still in its infancy. Sure, we regard some companies like PMC Sierra as having arrived. But they haven't. They're still young companies by most standards and they still have a long way to go.

Also, more of us are getting into the game. It amazes me how many people from all walks of life are investing in public company stocks. In 1987 less than one-quarter of Canadians held stock as compared the one-half today. In 2000, Canada's economy performed better than anyone expected. The economy grew 4.5% in 99. And it looks like 2000 will check in at 5% when the tally's done. No reason for pessimism, here.

At the start of 1999, the T-Net20 index stood at 1400 and I was wishfully, obviously conservatively prognosticating that the index could "hit 2000 by 2000". Well, it almost doubled that number prior

to 2000. The fact that it hasn't moved much in 2000, is not that surprising considering the rapid pre-2000 run-up.

The quick profits realized in late 1999 and early 2000 must have been burning a few holes in investors' pockets. That's why we've seen lots of new venture investments. Over one-billion dollars was invested in Q3 by venture capitalists in startup companies. This compares with \$471 million invested in the same period last year. More than \$3.4 bn was invested in the first nine months of 2000. In the same 9-month period, equity raised by emerging companies listed on the CDNX totalled almost \$2 Bn. Technology companies accounted for 57 per cent (\$1.1 billion) of this total.

A year ago in this column, I suggested some stock picks for 2000. Let's see how they fared. I suggested sticking with the top 20 list. Specifically, my favorites in the Biotech group for speculative growth were **Anormed Inc.** (TSE:AOM, \$9) - now \$20, **Inex Pharmaceuticals** (TSE:IEX,\$6.50) - now \$5 and **Angiotech Pharmaceuticals Inc.** (TSE:ANP,\$20) - now \$60. In the infotech group, my favorites were **Creo Products Inc.** (NASDAQ:CREO, \$38.43) - now \$20.50, **Sierra Wireless** (TSE:SW, \$65) - now \$73, **Infowave Wireless Messaging Inc** (TSE:IW, \$16.15) - now \$5.25, and **Burntsand Inc** (TSE:BRT, \$4.35) - now at \$4.05. Just yesterday, Sierra Wireless got mercifully nailed (by 11%) because of a "miscommunication" about its 2001 financial projections.

What are the 2001 picks? Again, I'd stay with many in the T-Net20 index. I'd increase my holdings (if I only had a lot) in companies like **Creo**, **Sierra Wireless**, **Burntsand**, **PMC-Sierra**, and **QLT Inc** - all of which can now be picked up well below their 2000 highs. Another pick is **Infowave Software** (TSE:IW) which recently recruited Thomas Koll, a VP at Microsoft, to the CEO post. He's also buying 200K shares in the company as a sign of his commitment. Who says it's hard to attract talent to B.C. companies?

Yes, B.C. is hot. We've got excellent universities, colleges and research institutes. New R&D organizations relating to fuel cell and new media technologies were created in 2000, i.e. **Fuel Cells Canada** and the **New Media Innovation Centre** (NewMIC). These recent initiatives complement the pro-tech infrastructure in B.C. which consists of esteemed organizations such as the **B.C. Science Council** and the **B.C. Advanced Systems Institute** with their highly successful early stage financing and business development programs. There are tons of opportunities which come to light at industry events offered by the Vancouver Enterprise Forum and the many industry organizations (BCBA, BC-TIA, CATA, etc).

Even though there appears to be a retreat to conservatism, Venture Capital coffers are at record levels and we're seeing more and more early-stage Angel investors appearing in B.C.

Recent tax cuts and R&D incentives bode well for our industry. If (when) Gordon Campbell takes over in 2001, we will, if he keeps his promise, be the most attractive province tax-wise. It means that, with respect to corporate taxes, B.C. could become the lowest-tax jurisdiction in North America (Ontario and Alberta with their proposed 8% rate combined with the 21% Federal tax are the current front-runners). And the promised cuts in personal taxes will mitigate some of the oft-touted reasons for our overly exaggerated brain drain.

It's funny how - as soon as we start taking credit for raising some winners in B.C. - some are quick to point out that the winners aren't really B.C. companies.

For example, in the Vancouver Sun's Dec 16th business section, there was an interesting column

on PMC-Sierra and whether or not it is a B.C. company. I've mentioned this in various T-Net articles, mainly lamenting the fact that it was not RRSP eligible. (see <http://www.bctechnology.com/statics/mvolker-jun3000.html>).

Interestingly, PMCS is not a so-called reporting issuer in B.C. Companies, regardless of where they are incorporated need to file with SEDAR ([www.sedar.com](http://www.sedar.com)) if they want to offer re-saleable shares to their employees and investors. SEDAR filings also allow the investing public to readily look up information on a company. In PMCS' case, the filings are with the American equivalent of SEDAR, namely EDGAR ([www.edgar.com](http://www.edgar.com)). The Globe and Mail, for example, omitted PMCS for this reason from its top 1000 list.

Many of the companies which I refer to as "B.C. companies" in my columns are, in fact, technically *not* really B.C. companies - if you go by incorporation jurisdiction. Some are Canadian Corporations (i.e. federally incorporated instead of being provincial companies - this offers certain advantages for corporations) and others may be incorporated in off-shore jurisdictions. Indeed, some "B.C. companies" are incorporated in Bermuda, the Barbados, Delaware or elsewhere.

Due to the very nature of high tech, most tech companies have subsidiaries and employees in several countries. Often, their legal structure is driven by both tax and market considerations. Companies like Pivotal Corp do most of their business and have many investors outside of Canada. In fact, Pivotal even started off with a NASDAQ-only listing.

So, In determining whether or not a company is a B.C. firm, such as for inclusion in the T-Net20, I've used the criterion of having its *headquarters or its mind and management based in B.C.* For this reason, companies like PMCS are included whereas companies like Electronic Arts are excluded. MDA, for example, was excluded while it was owned and controlled by Orbital Sciences but when it became independently listed with its corporate management in B.C., we included it. If we get too particular with legal definitions, we'd soon have no companies on our list.

Another reason why it is fair game to identify firms like PMCS as local companies is because of their impact on the local economy - the number of jobs they create, the taxes they pay, and also the spin-off benefits such as the local tech investments made by the multi-millionaires behind them.

### **IPO's in 2000**

Earlier this year, the IPO market was hot. Many companies started the going-public process in the hopes of attracting investment at high valuations. Since the going public process from start to finish takes a good nine months or so, many of the companies which caught the Spring fever were chilled by the cool winds of Fall (when markets fell). Many IPOs were pulled with companies citing "unfavorable market conditions".

Among the B.C. companies which postponed IPO plans are: **Kinetek Pharmaceuticals Inc** which, just in March of this year successfully raised just over \$20M in a private second round (at least Kinetek was able to benefit from a hot market then), **WaveCom Electronics Inc.** ([www.wavecom.ca](http://www.wavecom.ca)), a Victoria, BC company which designs broadband transmission equipment for data over cable and fixed broadband wireless networks, and **Beanstream Internet Commerce Inc**, an internet software venture.

Those companies which went public earlier benefited greatly by raising additional capital when their valuations were high. A good example of this is **Burntsand Inc.** (TSE:BRT) which completed a \$49.5 Bn special warrant financing at \$10.50.

Some of the notable IPOs (for B.C.) for 2000 included: **Absolute Software** (CDNX:ABT), **360Networks** (NASDAQ: TSIX), **MacDonald Dettwiler & Associates** (TSE: MDA), **Chromos Molecular Systems Inc** (TSE:CHR), **QHR Technologies Inc.** (CDNX:QHR), **CST Coldswitch Technologies Inc** (CDNX:LS), and **Sourcesmith Industries Inc.**(CDNX:SSM).

By the way, these Canadian IPOs have fared much better than American ones. Only 8% of U.S. IPOs were up from their offering prices. Not so with respect to the above mentioned B.C. IPOs! Studies have shown that American's tend to over-price their IPOs (take note for future offerings).

If we count Capital Pool Corporations (CPC), there have been many IPOs in B.C. These are covered elsewhere in this column.

A good example of a CPC is **ExFund (A) Capital Corp** which acquired **Discovery Capital Corporation** (CDNX:DVY). Discovery Capital's track record includes companies like **Sierra Wireless Inc.** (TSE:SW), **ALI Technologies Inc.** (TSE: ALT), **Dees Communications Inc.** (NASDAQ: NICE), and **Inex Pharmaceuticals Corp.** (TSE:IEX). Discovery reviews over 500 new business plans a year. It's a great way to invest in emerging B.C. tech ventures at an affordable share price.

You can get a full prospectus on any Canadian IPO offering (or any Canadian public issuer for that matter) on the Sedar website at <http://www.sedar.com>.

### **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 pennies.

I think of these as potential junior technology IPOs. There are now 225 CPC companies have have been formed. Of these, 27 have completed their qualifying transactions and are now trading as regular public companies.

New additions to the list are **ACP Ace Venture Corporation, Arta Enterprises Inc., Developer Ventures Inc., ESS Holdings Inc., Nova Canada Enterprises Ltd., Old Sun Resources Ltd., Seneca Equities Corp.** and **Wise Wood Energy Ltd.** All of these new entries are from Alberta except for ACP Ace Venture Corporation and Nova Canada Enterprises Ltd., which are from B.C.

Since the previous update, the following companies have come to trade: **Beanstalk Capital Corporation, Context Energy Inc., Killam Properties Inc., QDM Ventures Ltd., Silicon Acquisition Inc., Southport Capital Corp.,** and **Technology and Resource Capital Corp.**

The following two companies have been deleted from the list because they have completed their Qualifying Transactions: **Advanced Sensing Systems Inc.** and **EKZ Investments Ltd.**

Check our [Capital Pool Corporation chart](#) (in .pdf format) 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

I wish you all a very prosperous and successful 2001 (also sprach Zarathustra) - and may you reap many happy returns from your investments in B.C.'s technology sector!

HAPPY NEW YEAR!!

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

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

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

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