



**Tech Futures:
February 20, 2004**

By [Michael Volker](#)

Investment Climate in BC?

What's the investment climate in BC for tech companies? We know that it's hot for the resource sector. In Monday's Report on Business (Globe & Mail) the headline read: "Junior miners rake in \$3-billion". That's the capital that flowed to speculative junior mining companies last year. Investors' appetite for resource companies hasn't been this strong in years. I'd love to see a similar headline for the tech sector.

A few weekends earlier I was chatting with **Joe Martin** of **Cambridge House** who runs an annual investors conference in Vancouver. Joe was elated because he had the best attendance in years. Booth space for resource sector exhibitors was sold out. Attendance was at record levels.

A few years ago, the resource sector was down and tech was up. At that time, Joe bolstered his attendance somewhat by featuring the tech sector. No need for that this year!

Rather than seeing the reverse situation, mining up and tech down, this year actually looks good *for both* the resource and tech sectors.

So, what's the investment sentiment for technology stocks? You've heard me rave about some great initiatives that the Province has taken to boost investment in the tech sector. In fact, the Premier is on record as saying that his goal is to triple the amount of venture capital in BC.

Under the recently revamped *Small Business Venture Capital Act (SBVCA)*, the government offers a 30% tax credit to investors willing to bet on entrepreneurs building their technology ventures. When coupled with an RRSP investors can enjoy an almost four-to-one leverage (e.g. a \$5,000 investment can mean as little as \$1,300 at risk). What a deal!

The fact that it's a great deal for investors is tempered by the fact that this incentive is limited to only \$20 million annually in tax credits, meaning that only \$67 million in total can be raised under the program each year.

In the past several years this limitation has not been a big issue because the \$20 million was always far from being fully utilized.

Now, for the first time, the \$20 million is proving to be insufficient to meet investment demand. What's different this year? Well, for starters the SBVCA program was greatly improved last Spring by allowing small businesses to use the tax credits directly to attract individual angel-style investors. Imagine, having 30% of one's capital requirements secured up front merely by having to find the other 70%! More than 100 companies signed up to take advantage of this superb opportunity.

In addition to allowing companies, as well as provincially registered Venture Capital Corporations (VCCs) to raise capital under the SBVCA rules, the government extended the time frame for tax credit applications to coincide with

the popular RRSP selling season - i.e. let investors get the 30% tax credit until Feb 29th and let them apply it to the 2003 tax year. In other words, an investor who writes a \$5,000 cheque this month will get back as much as \$3,700 of that in April, leaving her with only \$1,300 at risk. WOW!

Not only did 100+ companies register, six new professionally-managed VCCs registered to pool capital for purposes of financing growing technology ventures.

By the second week of February the tax credits (applicable to the 2003 taxation year) were sold out. You can imagine that many companies, VCCs and most importantly - investors - were very disappointed. Especially hard were those that were counting on using these credits for 2003. The larger public VCCs such as **BC Discovery (VCC)** and **BC Advantage (VCC)** used up their entire allocations and raised over \$10 Million each. The smaller, private funds such as the one I'm promoting - **WUTIF Capital (VCC)**, the **Okanagan Capital Fund (VCC)** and **NDI Life Sciences (VCC)** that don't have the budgets for large public distributions of their shares were caught by surprise and are severely impacted. For me, it was like having a reserved seat on the Olympics jet only to find that I was bumped off.

And, the timing couldn't have been worse - right at the peak of the RRSP February selling period. Although many attempts were made to convince our political leaders as to what a good news story this is, we have (so far) been unable to get any extensions. Think about it - individual British Columbians are investing in our tech sector - more than we've seen for some time! Let's keep up the momentum. Remember what the Premier said about tripling venture capital in BC. What a great start. Let's not stop the train now.

One of the arguments against expanding the tax credits this year is the Government's commitment to manage a balanced budget. Indeed, this past Wednesday's **Vancouver Sun** headline read: "BC budget balanced and bullish: 'Best is yet to come'".

(Sidenote: my January [column](#) was titled "Bullish on BC!" although I must admit that some of my own bullishness has been dampened somewhat by not getting the VCC tax credits extended.)

I'll be the last one to argue against a balanced budget, but when I read it, I noticed that there's wiggle room everywhere - contingencies and even a \$100 million surplus. Increasing the VCC program by a million or two is no big deal. It's not really an expense item anyway.

Just consider the economic contribution (taxes and jobs) that companies like **QLT Inc** and **Angiotech** provide? **QLT** recently reported that its annual profit *tripled* to \$44 million (that's profit after tax - QLT reports \$24 million in taxes - more than the entire VCC program!) on sales of only \$146 million (beautiful margins, eh? -compare that to **Telus'** quarterly profit of like amount). The payback is immediate through payroll taxes alone let alone factoring in the downstream wealth creation benefits. QLT reports that And then there's **Xantrex Technology Inc** - it recently announced plans to do a full-blown IPO on the Toronto Stock Exchange.

It's companies such as this (ie. tomorrow's tech winners) that will get their start from VCCs such as **WUTIF Capital, BC Advantage, Okanagan Capital, Pender Growth, BC Discovery** and **NDI Life Sciences**.

In Quebec, a VCC-like fund was launched and it immediately raised some \$150 million!! Compare that to our 6 funds scurrying to raise one-third of that. We gotta think BIG - just like the BC Lottery does! BIG, BIG, BIG - not CUT,CUT,CUT.

Raising capital, as any tech entrepreneur will tell you, is difficult in the best of times so you never say "no" when investors are lined up to fund you. I just can't come to grips with turning away investors.

So, am I still bullish on BC? Yes, you bet I am - but only as long as we keep the doors open for investors in our

companies. Oh, and by the way, you can still invest under the SBVCA - it's just that you have to wait a little longer to get your tax refund!

Ready to Rocket 25

In January, I attended **Rocket Builders'** IT Outlook 2004 seminar. Rocket Builders is a B.C. firm that does market research on emerging technology trends and uses this information to help companies and investors to capitalize on growth opportunities.

Over the last few weeks Rocket Builders has presented their analysis to investors all over the Pacific Northwest. What caught my attention was the interest that they were getting from Seattle-area investors and venture capitalists.

I interviewed **Reg Nordman, Geoff Hansen** and **Dave Thomas**, Rocket Builders' partners about their "Ready to Rocket 25" list and their "IT Outlook 2004". Here is a summary of that interview.

The "Ready to Rocket 25" list names twenty-five private B.C. companies that are best positioned to capitalize on the information technology (IT) trends that will contribute to faster growth than the IT sector as a whole. This is only the second time that Rocket Builders released this list along with its annual "IT Outlook 2004" report in late January.

I thought it was cool that the **Vancouver Sun** picked up on this and did a huge layout on the 25 firms featured here. It's these entrepreneurial firms that we often don't hear about until they appear as overnight successes and then we wonder, "Gee, why didn't I invest in that one?"

How did they choose these twenty-five companies? They came up with this short list by mapping hundreds of technology companies against the key trends identified in their Outlook report.

Since this is only their second time at doing this one would wonder how well last year's picks fared. As it turns out last year's "Ready to Rocket 25" list featured fifteen companies that met or exceeded double-digit growth and three companies that were acquired, with the majority of the twenty-five receiving new financing in 2003.

What is the Rocket Builders view for the BC technology sector in the next year?

Unlike the pessimism about the industry last year, analysts are now predicting growth for the IT sector. Although predictions of 5% growth are pretty modest, some areas of technology and some vertical markets are seeing in excess of 20% growth. And, despite the tough economic times of recent years, the industry continues to produce innovative technology, introduce new strategies, and implement new business models.

What are the top drivers for the marketplace? According to Geoff Hansen, continued innovation and investment by IBM, Intel and Microsoft and key emerging technologies such as Wireless Handheld Devices, On-Demand Computing, and Social Networking are the key drivers to draft. One new driver of growth opportunities is regulation of governance, privacy, security and digital copyrights.

What quick market advice could you give BC Technology companies?

Pay attention to the importance of vertical markets for the IT industry. The financial services, manufacturing and government vertical markets are consistently growing year after year, and the retail, healthcare and government verticals are expected to exceed 20% growth in IT spending.

What I found particularly encouraging is the response from the folks in Seattle to the Rocket Builders presentation

Aside from being very well attended, the participants were enthusiastic about BC companies' prospects. They noted that the Vancouver market is starting to mature. Many Seattle VCs, including Ignition Partners and Encompass Ventures, commented that they will be increasingly looking at BC companies. They rated the overall quality of Vancouver companies as very high.

A number of private and public companies map well to growth trends for 2004. Many combine innovative technology with a vertical market that provides significant growth. Examples of these private companies include:

ActiveStream - users can package and transmit personalized videos with standard emails. Their technology provides users greater intimacy as it connects people and messages. (don't confuse with ActiveState that was sold last year for \$32 million)

Bycast - approaches health care using utility computing for accessing medical images. They make medical professionals more efficient and reduce cost while providing patient data with the security required by regulatory standards.

Galeforce - combines Microsoft CRM with a targeted solution for the financial services industry. They combine the power of Microsoft's marketing initiatives with the largest and most lucrative vertical market.

Maestro CMS - combines two significant trends, ASP business models and website content management. Their service is available 'on demand' and they enable companies to control timely data and deliver it rapidly via the web. (note - this one may be speaking at next week's Vancouver Enterprise Forum on Feb 24th.)

New Heights' - communications package enables users to combine PC based information with their telephone system. They link user specific information to real-time communication as they combine desktop data and feature with innovative telephony solutions.

Sxip Networks - has an innovative approach to 'Identity Management'. Their solution targets many of the security (and identity) issues associated with the Internet. (Dick Hardt who founded ActiveState is behind this one. Those angels that missed Dick's first venture, might wish to take a look at this one.)

In summary, the Rocket Builders group observed that BC has some strong clusters of technology innovation in wireless, telecommunications, visualization and media, and customer engagement technologies. BC continues to have technology leadership in many fronts of the IT industry. Although they are bullish about BC companies this year, they caution that progress won't be without hard work. Specifically, companies need to continue to pay very close attention to execution and profitability this year.

The opportunities are greater in 2004 than last year. Look for Rocket Builders' 'mid-year update' at the end of Q 2 for the latest on the private companies that are; 'Ready to Rocket'.

I believe it's great for us to be optimistic about the prospects of our home grown crop of technology deals, but when others – such as venture capitalists south of the border – start to take note, that's even better!

For more information on the "Ready to Rocket 25" list, please go to:

<http://www.rocketbuilders.com/r2r2004/index.html>

VEF UPDATE

Next week's [Vancouver Enterprise Forum](#) event will focus on our favorite subject - money! The event is on Tuesday, February 24, 2004 from 5:30 PM to 8:00 PM and is titled, "Salesmanship begins when the VC says no -

How **Maestro CMS** and **NeuroMed** Raised Money After the Bubble Burst".

What are the lessons that seasoned CEOs learned the hard way as they raised venture financing for their companies - after the bubble burst? How do you get past a "gatekeeper" and get a VC's attention? What makes a company attractive to a VC? What are the pitfalls to avoid? What proactive steps does a company have to take to successfully close a round of venture financing? What are the differences between closing on a first round and later rounds?

The VEF's February event is always a popular one for technology entrepreneurs: how to successfully raise money to fund their new ventures. Attendees will hear from CEOs in software and biotechnology on how they managed growth with venture funding. The evening's speakers will include **Thierry LeVasseur**, founder, president and CEO, and acting CTO of Maestro CMS Corporation - which recently closed its first-round financing with **Ventures West** - and **Natalie E. Dakers**, co-founder, president and CEO of **NeuroMed**. Last year, NeuroMed closed a Series C financing of US\$32 million, marking the largest private biotech financing in Canada last year. In addition, **David McIntyre** of Ventures West will deliver a presentation on venture capitalists: how to pick one, what VCs look for, and some dos and don'ts approaching VCs.

Last month's [Vancouver Enterprise Forum](#) event - on Tuesday, January 27th focused on launching new products and building revenue. **Certicom Corp** from Ontario - with **Scott Vanstone** of Certicom made a special guest appearance. He talked about how this technology has been sold around the globe. The co-sponsor for this event is the **University of Waterloo**. **Leonad Hordyk** of **TiR Systems**, the other presenter, is on a roll. Both companies are public companies. Both have been in business for more than a decade and both are just now starting to break out - check their stock prices!

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

SFU's TIME Centre

If you're an entrepreneur looking for a place to get your company started; there's some great space available at Harbour Centre downtown. **SFU's TIME Centre** provides 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 "Business Centre" (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.

Michael Volker, a technology entrepreneur, is Director of the University/Industry [Liaison Office](#) at Simon Fraser University, past Chair of the B.C. Advanced Systems Institute, Chair of the [Vancouver Angel Network](#) and past Chair of the [Vancouver Enterprise Forum](#). He owns shares in many of the companies he writes about. Copyright, 2004.

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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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