Tech Futures:
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By Michael Volker

A Better Tax Call, Eight IT Stock Picks, New Regs Coming, Canadian dollar will keep falling, Capital Pool Corps Update, and Local Events

In case you were wondering why you haven't heard from me since January 25th, the reason is that I'm changing from a bi-weekly routine to a monthly format. Hence, I'll be reporting to you on the first Friday of each month. I love doing these columns but unfortunately they consume a big slice of time. I may contribute the occasional "special" report if anything newsy occurs.

A Better Tax Call

I hate saying I told you so. CEOs of tech companies, especially the larger ones, got their income tax-cut wishes fulfilled when the **BC Liberals** took office last year. It seemed to be the single most important "must-have" as the panacea to cure the brain drain to get and keep top talent working in our high tech companies. I believe that **Gordon Campbell** would still have delivered on his promises to tech execs by announcing the cuts but phasing them in a little more gradually along with some other tax deals on the investment side.

No one thought we'd see the sudden drop in the tech sector growth curve. In 2000, companies couldn't recruit enough talent. Many of those that they did manage to attract are now suddenly out on the street. Those income tax cuts designed to lure difficult-to-hire Americans are having no impact on the economy. And, there's still no incentive on the investment side which is what we really need to grow our companies. I've been whining for years about the need to have up-front versus cashing-out incentives for investors, e.g. angels, to put their money into private ventures with a five to ten year commitment. That investment and its ripple-effect is what's needed.

It's my understanding that there are some initiatives percolating in this regard (e.g. new labor funds, upgrades to the Venture Capital Corp program and of course, the revisions to our crazy securities regulations - more on this below) but we still need to focus on getting individual investors into the game (ie private company investments). And, I don't mean public company investments. Other than IPO offerings or private placements, getting people to invest in the market does nothing for the companies. It only creates liquidity for, and trading among, investors. We need a better balance between tax relief on the income side and tax stimulation on the investment front. Right now, we're a little out of whack.

Eight Infotech Picks

I'm often asked this question: "What's a good B.C. tech stock to buy?" That's a difficult question to answer without knowing what one means by "good". With respect to making a gain (long term or fast buck), it depends on one's risk propensity. A speculative stock holds the promise of a higher gain but at a much higher risk.

In the info-tech sector, I'd like to highlight eight senior exchange (TSE, NASDAQ) listed companies. These range from what I believe are the safest to the most speculative. I define the safest as those with the best earnings track record, the lowest risk of a decline from current price levels with good medium to long-term upside. The more speculative are the unproven ones which, if (and it's a big "if") they hit their targets (development and sale-wise) will produce a multiple return (i.e. several hundred percent). At current price levels, there may be some good bargains here.

In order, from safest to most speculative, my picks are **MacDonald Dettwiler** (TSE:MDA), **Creo Products Inc.** (NASDAQ:CREO), **PMC-Sierra Inc** (NASDAQ:PMCS), **A.L.I. Technologies** (TSE:ALT), **Sierra Wireless Inc.** (TSE:SW), , **Pivotal Corp** (NASDAQ:PVTL), **ACD Systems** (TSE:ASA), **Infowave Wireless** (TSE:IW).

MacDonald Dettwiler (TSE:MDA), is a pioneer on the B.C. tech scene. It was one of the very first high tech companies established back in the early seventies. The company, unlike most in the sector, has reported 69 consecutive quarters of profit! The company ranks 4th on the BC technology venture revenue scale. The company may benefit from the increased government spending on security and defence. It's best known for its **Canadarm** deployed on NASA's Space Shuttle. Most analysts are expecting healthy near-term stock gains. Since MDA went public in mid-2000 at C$14, its stock is one of the few with a substantial increase, i.e. close to 100%. In the latest quarter (Sep30), sales rose 12% to C$124 million while profit increased to C$4.9 million. Even better is the balance sheet which, during the quarter, added C$13 million in cash flow.This company is truly one of the tech industry's treasures with its solid technology and good management team. In 2001, it was named "Company of the Year" by the B.C. Technology Industries Association. Trading at $26, it's near the high end of its 52-week range of $18.50 - $28.50. I ranked it first mainly because of its performance record which I believe will continue.

Creo Products Inc (NASDAQ:CREO) is one of two B.C. technology companies to hit $1 billion (Cdn) in sales. For the fiscal year ending Sept. 30, 2001 Creo achieved revenues of US$656.5-million, an increase of 45 per cent on the US$453.3-million reported a year ago. This increase was primarily a result of the company's April, 2000, acquisition of the prepress division of **Scitex Corporation Ltd**. Adjusted earnings for Creo were US$27.1-million or 54 cents per share (diluted) for the fiscal year ending Sept. 30, 2001, compared with adjusted earnings of US$41.9-million or 97 cents per share (diluted) for the same period a year ago. Adjusted results exclude the effects of costs associated with the acquisition - something that always results in certain writedowns of good will and other intangibles. However, as I see it, this acquisition positions Creo for market dominance. In addition to the reduced earnings, some pressure on the stock price is due to Scitex Corporation's announcement that it intends to sell 7 million shares of Creo Products Inc. to hold 6.25 million. As demand in the printing sector, currently depressed by weakness in the advertising market (Creo's 4th quarter revenue slipped to US$143.2-million from US$173.3-million a year earlier), picks up again next year, Creo should perform well for its investors in the long run. However, during this weak period, the company was busy developing products for new markets. For example, the first one, targeting the creative side of graphic arts was launched at MacWorld in January. Trading in the US$10 range – well below its mid-99 IPO price of US$15, I believe that it stands a good chance of getting back to its 52-week high of US$21.25 in the next one to two years as selling pressure abates and demand rises in the printing industry.

PMC-Sierra Inc (NASDAQ:PMCS) is a communications "fabless" chip maker supplying the leading telecoms such as **Cisco**, **Lucent** and **Nortel** with the building blocks that go into their high-speed transmission and networking systems. It is the other B.C. firm that's achieved C$1 billion in sales. However, due to the slow-down in this sector, PMC's annual revenue for 2001 dropped 54% to US$322 million causing it to record a loss of $639 million vs a net income of $75 million a year earlier. The 52-week trading range on the stock is $9.37 - $50.12. A the 2000 peak, it was over $200. Officially, PMC is a Delaware corporation with head office in Santa Clara, California. But practically speaking, it is really a B.C. company because that's what is left of the merger of two firms. Sierra Semiconductor was formed in 1984 in Silicon Valley as a modem chipset business. PMC-Sierra was established in 1992 in B.C. as a spin-off from **MPR Teltech**, the R&D organization formed by what was then **B.C. Tel** (now **Telus**). PMC-Sierra was acquired by Sierra Semiconductor in 1994 and in 1996 the board took the bold move of abandoning the low-margin modem business to concentrate on more lucrative, higher-margin networking products. **Sierra Semiconductor** changed its name to PMC-Sierra in 1997 to recognize this new thrust. The key executives and development team work still work out of the company's Burnaby, B.C. offices where overhead costs and personnel costs are far lower that in California. Last year, the company developed 36 new products. This, coupled with a recovery in the communications sector and the company's realization of its cost trimming initiatives, should see the company return to profitability this year. And when the telecoms sector picks up again (it will, we're just not sure when), it could once again be hot.

A.L.I. Technologies (TSE:ALT), a medical imaging firm, has aroused positive sentiment following a strong earnings release. Recently, its shares rallied up to the C$34 level following news of a successful quarter. Net income for the latest quarter is up from a loss of C$690,000 to a gain of C$3.6 million. The company posted a huge increase in revenue for the quarter. A main advantage to the company is that most of its revenue is generated in US dollars and costs are in cheap Canadian dollars. The company expects revenues of C$70 million and EPS of C$1.40 for 2002.**RBC Capital Markets** has designated it a "top pick" with a 1-year target price of C$38.00. **Research Capital** has raised its target from C$30.00 to C$40.00 and**Taurus Capital Markets** reiterates its "buy" rating, increasing its target from C$28.00 to C$34.00.Only a year ago, the company was trading at its 52-week low of C$4.00. (I delight in knowing that I had recommended it in this columı long before then, even.) The company attributes the better-than-expected results to operating efficiencies, cost control and a favorable foreign exchange impact. ALI reaffirmed its forecast of more than C$70-million in revenue for fiscal 2002, but increased its guidance for share profit to "at least" C$1.40 a share from more than C$1. (The forecast assumes that the U.S./Canadian dollar exchange rates will remain constant over the balance of the year.) ALI has created a reputation for itself within the medical imaging industry due to its strong management team and its ability to carry out the business plan. Investors may be buying in at the high end, but this company still has lots of room on the upside. Many investors still see it as an emerging company.

Sierra Wireless Inc.'s (TSE:SW) mission is to be the world leader in wireless data modems and software. Incorporated in 1993, it was named Canada's fastest growing technology company in 1999 by **Deloitte & Touche**. Annual sales are reported at US$60m for 2001, an 11% increase during a year when many others experienced a decline. The company's commitment to R&D, i.e. $19 million in 2001, will help the company in maintaining a leadership position in this industry niche During its last quarter, the company demonstrated its **AirCard** wireless modem product line working with the new **Microsoft** Windows-powered Pocket PC 2002 software at the Pocket PC 2002 launch event. As a Microsoft Pocket PC 2002 launch partner, Sierra has worked strategically with Microsoft to deliver a wireless personal digital assistant (PDA) that gives business users the freedom to connect to the Internet any time, anywhere. Development agreements with other firms such as **Casio** and distribution agreements with companies like **Ingram Micro** in North America and **Hugh Symons Mobile Data** for the European market. These alliances will help Sierra garner both a technical and market leadership position. The stock is trading around $17 - near the low end of its 52 week range of $12.50 to $50.60.

Pivotal Corp (NASDAQ:PVTL) a North Vancouver maker of CRM (Customer Relations Management) software went public in August, 1999 at a price of US$12 per share. Pivotal provides its scalable eBusiness CRM software for Web, wireless, and hosted solutions. For the six months ended Dec 31,2001, revenues fell 30% to US$32.5 million and the company's net loss totaled US$85.6 million, up substantially from $10.1 million reflecting a slowdown in Europe and US$51.4 million in restructuring and other charges. Pivotal's 52-week trading range is US$2.36 to US$25.70 and the stock is currently trading just under US$5.00. Last year, company founder Norm Francis turned the CEO's seat over to Bo Manning. New customer acquisitions including companies such as **Microsoft**, **Olivetti** and **Sapient** are encouraging signs. A number of analysts following this company have upgraded their recommendations. This is a very competitive area and because product switches from one company to another are very costly and disruptive, new customer wins are excellent proxies for a the companies future success. I ranked it high in risk because it's in a very competitive space and it has had trouble showing a profit. On the other hand, it may be an attractive acquisition target at its current market cap of "only" US$115 million.

ACD Systems (TSE:ASA), a Victoria imaging software company is showing some excellent customer acceptance. If your mind has ever been boggled by the myriad of image viewing and editing software, ACD Systems with its "ASA" ticker may spell some relief for you. **Future Shop Ltd.**, Canada's leading retailer of consumer electronics and digital photo processing (now a wholly owned subsidiary of **Best Buy Co. Inc.**) has entered into an agreement with ACD Systems to bundle a customized Future Photo version of its very popular ACDSee software package. A testimonial to its popularity is the fact that more than one million copies of the latest version of this software were downloaded by consumers in the month following its release in late September, 2001. Revenues for the second quarter (three months ended Sept. 30, 2001) were C$3.14 million as compared to C$2.36 million a year earlier. EBITDA for the period was a loss of $401,184. ACD anticipates strong revenue growth and profitability through the second half of the fiscal year, supported by the initial response to its new releases. Trading at only C$2.10, well off its peak of $10 last year, this is another “speculative-buy category” stock well worth taking a look at.

Infowave Software (TSE:IW) is my most speculative pick. I like because of its ambitious plans to establish itself as a leading wireless technology provider. I heard CEO **Thomas Koll**, ex-Microsoft, speak at the recent **Softworld 2001** Conference held in Vancouver. I was quite impressed by the company's plans, but more so by the fact the Koll personally put at risk $5 million of his own money. That spells commitment and confidence! Infowave closed a US$15 million private placement just before Christmas. Revenue for the nine months ended Sept. 30, 2001, was C$2,654,386 - 256% higher than the C$745,013 reported in the first nine months of last year - still modest, but moving in the right direction. Infowave was named one of the 50 fastest growing companies in Canada by **Deloitte & Touche, LLP**.

I want to focus somewhat on Infowave in light of what's been happening to its stock in the past few months. It also serves as a good example of an "extreme financing". I call it this because of the massive dilution suffered by former investors and the fact that this is probably the company's one and only shot at hitting breakeven or going bust. It's also extreme in that for thrill-seeking investors it makes for a wild adrenalin rush ride. Who needs the Olympics when you can watch this kind of action?

The US$15M private placement was sold by **Commonwealth** ($10M) in the U.S. and **Canaccord** in Canada in late November 2001 to well-heeled investors committing a minimum of $97,000 in B.C. and a minimum of $150,000 in Ontario (these are among those silly rules expected to be eliminated soon - see below).

This private placement was in the form of so-called "special warrants" which would, upon the acceptance of a prospectus by various securities commissions, be converted into shares and warrants. So, for $.69, an investor would get one share and the right to buy an additional share (for every two special warrants bought) at $.90 - good for up to three years (but potentially limited to $9.00 if the stock sky-rockets). The only catch was that investors had to hold the stock for four months or until it was "qualified" for re-sale under the prospectus.

For a company with some 23+ millions shares outstanding, this means an immediate dilution of 34 millions shares plus another 17 million shares if and when the warrants get exercised. In addition from the severe dilution, it also means a huge increase in the stock "float" - creating a lot of supply of stock.

For buyers, this looked pretty good back in November when the stock was moving towards $1.00 (it actually went as high as $1.91 in early January). What a deal! Of course, all the buyers know that they can't benefit from this run-up because of the hold period on their stock. The gutsy ones decided to short sell stock to lock in the high price. The short position in the stock rose to over 1.5 million shares. I'm sure many more would have shorted but the fear of a so-called "buy-in" and the uncertainty as to the duration of the hold period scared them off.

Last week, the company announced that the prospectus was receipted and that the 23+ million shares would be tradable this week. This news, plus the approaching likelihood of this event, has caused a steady day-by-day drop in the stock price to the low 60 cent range where is is today.

According to **Jim Rausch**, Director of investor relations at Infowave, most of the wireless companies saw substantial drops from their 2002 highs to their current trading levels. But Infowave had this additional hangover to contend with. A colleague commented, "I don't know too many companies who have successfully issued 150% new shares and didn't end up at (or below) the issue price. Usually a company can issue 10-20% in new shares - the market can usually handle this amount of dilution."

It seems to me that if investors are only just getting back their investment, or less (i.e. if they sell now), plus the warrants which are only worth .03 (the 17+ million warrants also trade on the TSE under the symbol IW.WT), then Infowave is pretty lucky to have been able to pull this off. This is not rocket science. I've seen this scenario played out many times before. It can only mean that the "sophisticated" investors among the November purchasers are very confident in the prospects of the company and are not among the current skittish sellers.

For the speculative investors in the November group, it might just have been simpler to wait and buy a bunch of cheap warrants!! Now, you too, can buy these warrants for a nickel. I wonder how this game would have been played under the new pending securities regulations?

What it's all going to come down to for Infowave and its investors is the company's ability to score within the next year. The wireless market is a very confusing space. There are many standards, many platforms, a myriad of hardware devices, telecoms services and lots of hype around future offerings. Infowave does have solutions today which allow its enterprise customers (Infowave is targeting larger, Fortune 1000 style, accounts) to connect people to their servers and applications using different devices. They've got a lot of incentive - and cash - now to deploy their solutions before others do. The only risk is going to be the competition. Just like in the Olympics!

So of these eight picks, which one am I betting on the most? The most speculative, of course - Infowave. But, I have to confess that the door looks attractive now that the stock has dropped below the purchase price. I could buy some warrants and risk a much smaller amount of capital.

Why the Canadian dollar will keep falling

An economics question. Regarding the value of the Canadian dollar, I am challenging any of you economists out there - armchair types or professionals to help me understand something.

The value of the dollar is based on the demand for it (or the lack of demand by sellers of the Canadian dollar). So, let's suppose we have a very prosperous economy. Won't foreign investors demand Canadian dollars to invest in Canada (as they have been doing). If their investments go up then they will at some time cash in these investments and in turn sell Canadian dollars. So the better we (and they) do, the more likely Canadian dollars will be sold. On the other hand, residents in Canada are converting their Canadian dollars to U.S. bucks in order to still have a little spending power left when they travel (or retire) south. It's unlikely that their US gains will all be converted back to Canadian because as long as the loonie keeps dropping, they may as well keep the US dollars and re-invest these in Nasdaq stocks or real property (and then there are those Cayman and Bahamian refuges, too!). So, what I can't figure out is where *any* demand for the Canadian dollar will come from - no matter how well we do! The only thing that might change this is a hot commodity product of which we're a net exporter (fish, wood, diamonds) that suddenly appreciates in value causing more Canadian dollars to be purchased by foreigners to buy these commodities, but even then, there's a good chance that those who get the Canadian bucks will promptly buy the American greenback to preserve their value. What am I missing?

New Regs Coming

I've mentioned before that I'm very encouraged by the **BC Securities Commission** and its desire to simplify capital raising for companies, especially the private ones. Many changes to current regulations are expected in the next few months. I've discussed many of these in previous columns.

Some changes are already taking place. For example, reporting requirements on privco financings are becoming less onerous. The Commission will no longer make public Offering Memorandums and Forms 45-902F (formerly, Form 20s) filed by "private issuers" in BC (that are also not reporting elsewhere). The OMs and Forms (including the list of purchasers) will not be posted on its website and will not be included in the public file. Members of the public, the media and competitors will not be able to access such information other than by successfully making an application under the Freedom of Information and Protection of Privacy Act. In this column, I have often reported on investment activities in private companies. Unfortunately for the nosy among us, this will no longer be possible but I think it will make life a little simpler for private companies. After all, why shouldn't they be allowed some privacy?

The BCSC has indicated that it proposes significant reforms to securities regulation in BC, including new securities issuance procedures and registration requirements for participants.

Here are some links to several documents that explain the BCSC's plans in detail:

BCSC news release: http://www.bcsc.bc.ca /news/NR02_17.asp

Request for comments: http://www.bcsc.bc.ca /news/BCN2002_12.pdf

and Discussion paper: http://www.bcsc.bc.ca /news/New_Concepts.pdf

In somewhat related news, the **Toronto Stock Exchange's** long-discussed plan to become a publicly traded company could become a reality in the next few months. The TSE, Canada's biggest stock exchange, unveiled plans in 1998 to convert itself into a for-profit organization but never set a firm date for doing so. This means that the TSE will have to file a prospectus (which it has not yet done). That's good, because then it'll have a chance to experience the hell that many companies go through in getting one done. A spokesman said that the new issue could do well, noting that it could be modeled on IPOs done by other exchanges, with a structure that includes a dividend - a rare occurrence these days.

I wonder how a valuation will be determined. I also wonder if the **CDNX, the Canadian Venture Exchange,** will add or subtract to that valuation. Maybe the TSE can spin-off the CDNX as a junior pubco which itself becomes listed on the CDNX providing it meets its listing rules, of course! Hopefully they won't suffer from the same disease as most of their listed companies - illiquidity.

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.

Although I have mixed feelings about how this program is working, I still like the concept and will, for the time being, continue to track these companies. We should see some, hopefully major, changes to this program over the next year or so. CPC formation has slowed somewhat over the past year.

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 is now current to the end of February, 2002. (previous update was at Nov.30, 2001). The list is shrinking a bit with only 225 active CPCs.

The new additions to the list are **AMC Microsystems Corporation, Begama Technologies Inc., Elaraa Limited and Sonus Venture Capital Corporation**. AMC is from Alberta, Elaraa is from Ontario and Begama and Sonus are from Quebec.

Since the previous update, the following companies have come to trade: **Arbour Energy Inc., Cardiff Resources Inc., Londonderrie Trail Inc.** and **Vanguard Investments Corp**.

Since the previous update, the following companies have been removed from the list because they have completed their Qualifying Tansactions and are now regular, listed companies (no CPC designation): **Alouettes 1974 Capital Inc., Capital Endeavors Corporation, Developer Ventures Inc., Jessian Capital Corp., Kingfisher Ventures Inc.,PanGlobel.com Inc. and Rocky Old Man Energy Inc.**

Soon (I promise), we'll take a look at how these companies (the ones that have graduated from the CPC board) are faring.

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

Local Events

This week, the **Vancouver Enterprise Forum** event focused on the topic of "**Technology Marketing Strategies that Work"**. Long-time industry commentator and marketing luminary **Judy Bishop** did a great job of taking a fresh look at successful marketing fundamentals, discussing why venture capitalists focus so much on marketing and senior management. Senior executives at **ResponseTek Networks** and **Q*Media Services Corporation** presented their marketing stories and their corporate planning and marketing execution strategies.

Details of the talks (and info on upcomingVEF events) are available at: www.vef.org .

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 teemed 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.

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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