



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

## **CDNX Liquidity Woes, Good Buys, Fresh Air at the Commission, Capital Pool Corps Update, and Coming Events**

### **CDNX Liquidity Woes**

The stock market's a pretty boring place these days. Where are the IPOs? Where is there any momentum? What are the hot plays? What's getting "promoted"?

Business news commentators like to invent new buzz words. I was just listening to the market wrap-up when I heard the announcer say, "today's market action is choppy and volatile with markets trading sideways". What the heck does "sideways" mean? I always thought stocks traded up or down or unchanged. But sideways? Maybe that's what happens when you buy U.S. shares with your dwindling loonie.

The main problem is that investors and traders are sitting on the sidelines (they're not even trading sideways). This is especially true on the junior markets, i.e. the **CDNX**. **Barbara Stymiest**, chief of the **Toronto Stock Exchange** (TSE), identified the poor liquidity as one of the major challenges now facing the CDNX as well as the TSE, for that matter.

There's a serious CDNX liquidity crunch as reported by **Peter Kennedy** in the **Globe and Mail** earlier this week. Daily trading has fallen to a mere \$10 million from \$260 million in the past year and a half. Share volume is down to 20 million/day from the peak in March 2000 at 170 million/day. The article mentioned that the daily trading on the CDNX is the dollar equivalent to a few seconds of trading in Microsoft stock. Considering that the CDNX has more than 2600 listed companies, that's not a lot of action. Indeed, not only are the volumes very thin - in many cases there is no volume at all. None. Zip!

This lack of interest can't be blamed on the general market malaise. There are some more fundamental issues here. For example, many small brokerage firms are disappearing and many brokers just can't be bothered with junior companies. Besides, the CDNX is getting some competition from the unregulated OTC (Over-the-Counter) market in the U.S. And the increased influence from "back east" - the TSE - perceived or real, isn't helping either. Gone are those good old days of Howe Street/VSE wheeling and dealing. Although some may argue that that's a good thing, we do need to get speculators and risk takers back into the game to bolster volumes and provide real investors with liquidity.

There aren't too many solutions being suggested. One that I heard about recently was a proposal to get the institutional investors to allocate a percentage, e.g. 5%, of their portfolio to junior issuers. That'll help in a direct way but it may be more beneficial in an indirect way - by drawing more retail traders to these companies.

Whenever a large company takes over a small entrepreneurial venture, the combined corporate culture usually shifts in the direction of that present in the larger entity. The free-wheeling, fast paced style of the acquired firm quickly gets replaced by the more formal structures in place at the acquiring company. This is exactly what I fear may happen with the CDNX.

To prevent this, the ownership and operating structures should be separated. That is, the owners should not operate it. Instead, they should appoint a completely independent and autonomous board to govern the CDNX. Members of this board should not be predominantly brokers and financial types. It should include entrepreneurs, especially accomplished ones that have nursed their companies through the junior markets and those who oversee companies presently listed on the CDNX. These are, unfortunately, missing at the board room table.

A board like this will work at opening the doors to more investors. An obvious place to start is on TSE turf - i.e. getting Ontario and Quebec investors more involved. The CDNX (i.e. the ASE and VSE) were always viewed by Ontarians as wild and woolly western exchanges. Speculative Ontarians had their own rendition of a junior market - the old CDN-OTC market (so there's some appetite). But, the real trick will be in going beyond our provincial boundaries and getting American companies and investors to see it as a better alternative to the OTC. There's a big void between the OTC and the Nasdaq small cap market - hence a market opportunity for the CDNX to seize. In my columns in 1999 which you can still find in the T-Net archives, I pushed for a North American identity (I never did like the CDNX name! and still don't).

Hopefully, when the TSE demutualizes and goes public itself, it'll spin-off the CDNX to make it a publicly owned entity in which the TSE could still hold a stake, but will exert even less influence.

In the meantime, the best option to address the liquidity issue is plain and simple promotion. All companies - large or small - promote themselves. Have you ever counted how many press releases companies like **Nortel** put out on a weekly basis?. The CDNX must be far more vocal in this respect. It has many success stories that it mentions all too infrequently. The heroes themselves would make excellent spokespeople.

A good first step in this direction, i.e. to draw investors' attention, was just announced. The CDNX and **Standard & Poor's**, a leading provider of financial information and investment analysis, are teaming up to create the **S&P/CDNX Composite Index** -- a new venture capital index for Canada. The S&P/CDNX Composite Index is being developed as a broad market indicator for the Canadian venture capital market. The index, which will replace the existing CDNX index, will debut on December 10, 2001. Calculated in a manner similar to the TSE 300 Composite Index, the new index will be market capitalization weighted and will include approximately 500 companies as opposed to the 2600+ (i.e. all companies) which are now in the current CDNX index. This list will be revised quarterly. For the list of stock names which will comprise the new index, criteria for inclusion and the methodology, check: <http://www.spglobal.com/news.html>.

There was some talk as last year about creating an index which would be exchange-traded. This hasn't materialized. Perhaps the S&P label will bring us a little closer to the possibility.

I should add that creating an index fund isn't easy. Myself and some others have spent a great deal of time and money attempting to create an exchange-traded index for BC Tech companies, but the logistics behind such an undertaking are far more complex than they appear. And to make it work, you need a large fund and good liquidity. We haven't given up just yet.

A CDNX traded index (analogous to the NASDAQ QQQ's) would, in my view, go a long way towards marketing the CDNX.

My bottom line: a vibrant, active, junior exchange can't be run and managed by an institution. Without entrepreneurs in the picture, it'll surely fade away.

## **Good Buys**

In the spirit of getting back into the market, I thought I should allocate some column inches on a regular basis to the identification (or reminding) of publicly traded B.C. tech companies. I'll include a few at the top end, in terms of market cap, a few in the mid-range and then finally some of the more speculative penny stocks.

**MacDonald Dettwiler** (TSE:MDA), a pioneer on the B.C. tech scene, represents a good big-cap investment opportunity. The company, unlike most in the sector, has reported its 69th consecutive quarter 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 defense. The company sells information per se as well as advanced technology products. The company is best known for its **Canadarm** deployed on NASA's Space Shuttle. I haven't heard any negative prognosticators. Most analysts expecting healthy near-term stock gains. Since MDA went public in mid-2000, it's stock is one of the few with a substantial increase, i.e. more than 60%. In the latest quarter (Sep30), sales rose 12% to \$124 million while profit increased to \$4.9 million. Even better is the balance sheet which, during the quarter, added \$13 million in cash flow. MDA is trading at \$23.

In the same league as MDA, I would bet on second-ranked **Creo Products Inc.** (TSE:CRE) and **Sierra Wireless** (TSE:SW), in 15th place. Both are well managed and very focused on their businesses. Many investors wished they could've participated in the IPOs of these companies. Today's pricing offers a similar opportunity. Indeed, it's almost like buying in pre-IPO! Creo's at U\$12.50 and Sierra's at C\$27.00.

The Harry Potter phenomenon should bode well for Burnaby's **Electronic Arts** (NASDAQ: ERTS) operation since EA was quick on the draw to negotiate the game rights to the novels. (What we need is to bring some Harry Potter magic to the CDNX. Maybe EA could develop a CDNX market game featuring Harry?) EA's not cheap, though. At U\$55, it's near the upper end of its 52-week range of U\$31-U\$63.75.

In the middle grouping, a good place to begin is those companies that are in the process of buying back some of their own stock - taking advantage of the relatively low prices. These are no-brainers. Buy-backs imply high internal management confidence, good cash reserves, positive cash flow, improved EPS through immediate anti-dilution, while at the same time providing a back-stop against further price erosion.

These companies are: **Burntsand Inc** (TSE:BRT), **ACD Systems** (TSE:ASA), **Pacific Insight Electronics Corp** (CDNX:PIH), **Triant Technologies** (CDNX:TNT), **Ignition Point Technologies Corp** (CDNX:IPN) and **ALI Technologies Inc** (TSE:ALT).

These six companies are all buying back their own shares - around 10% of their issued capital - on the open market over the next year.

ACD, a Victoria imaging software company, is trading at only \$2.50, well off its peak of \$10. In the month following the release of its ACDSee(tm) 4.0 software, more than one million copies were downloaded by consumers.

ALI, a medical imaging technology maker, reported Q4 (Sep30) revenues of \$12.3-million, an increase of 16 per cent over the prior quarter. Gross margins of 57.1 per cent exceeded even management's targets according to a recent news release. Net income of \$2.4-million (EPS: \$0.23) was 119 per cent higher than the prior quarter. That's a net margin of 20% - darn good. Revenues for the entire fiscal year are up 28% to \$40.4 million.

In the penny category, my three "gut-feel" picks this week are: **Marine Bioproducts International** (CDNX:MBP), **TIR Systems Limited** (CDNX:TIY), and **Immune Network** (CDNX:IMM).

Insiders of Marine Bioproducts just put \$640K of their own dough into the firm at \$.16 a share. They're obviously confident. TIR just announced a \$6.6 million "loan" for the federal government. So, in a way, we've all invested in it already. Immune Network is working on commercializing research on Alzheimer's. There is no drug available yet that will slow the progression of Alzheimer disease once it is diagnosed. IMM hopes to have one - the first one. And, at \$.06 it's sheer speculation. Hey, 10,000 shares will only set you back \$600! Better than 649 if you ask me.

Besides, I'm a big fan of research on this terrible disease.

Finally, for those of you who are still a bit reluctant to jump into a tech stock or for those seeking some diversification, I'll make a departure from my usual high-tech-centric recommendations to comment on a low-tech BC company that merits a look (or better yet, a taste). That's **Vincor International Inc** (TSE:VN). Vincor makes some great B.C. wines - e.g. Jackson-Triggs, Inniskillen, Washington's Hogue Cellars and Sawmill Creek. I've heard one of their Chardonnays described by connoisseurs as "a bold and fruity little wine" (nice line to use when you're at a wine-tasting). Me, I just like the taste! I just wish more wines came in the handy 4-litre box pack like their Sawmill Creek label. There's an innovation that hasn't caught on yet! CEO/Entrepreneur Donald Triggs pulled off a \$7m net on Q2 sales of \$92 million with a 48% margin to boot. He's out seeking a few more labels to add to his Cellars.

### **Fresh Air at the Commission**

last week, I attended a seminar put on by the **B.C. Securities Commission**. What a breath of fresh air it was! Together with its counterpart in Alberta, the BCSC plans to introduce some sweeping changes to the money-raising rules as early as next Spring. Much of the red-tape now facing companies and investors will be eliminated.

The challenge for commissions has been to strike the right balance between protecting the investing public and facilitating access to capital for companies. Historically, the emphasis has been on protecting investors, e.g. keeping widows and orphans from getting fleeced by ruthless scam artists (many of which almost caused the demise of the Vancouver Stock Exchange, just before it merged with the Alberta Exchange to form the CDNX in 1999). In an attempt to keep the hustlers at bay, new policies and rules were invoked – making it almost impossible for legitimate companies to sell their shares.

In B.C., the governmental reporting structure had the Commission reporting to the Minister of Finance. Collecting fees and fines and serving as a watchdog was its primary duty. The new B.C. Liberal government's promise to cut government red tape and create a pro-business climate was, I'm sure, behind the announcement that the Commission would now fall under the new B.C. Ministry of Competition, Science and Enterprise (love that name!).

Most equity capital raised by companies – again public or private firms – does not come from the public at large. It comes from family, friends, angels, seed funds, venture capitalists, and institutional investors. It is in this area where the regulations have caused headaches. For example, it is technically illegal for any company to sell its shares to anyone unless it produces a prospectus or relies on an "exemption" to the prospectus requirement. There are numerous such exemptions. For example, companies can sell their shares to company insiders and friends thereof without any hassle. However, outsiders cannot easily invest unless they invest a minimum of \$25,000 (much higher in Ontario) and meet certain criteria.

Under the new rules, expected to be in effect next Spring, angel investors, for example, will be able to invest any amount with almost no red tape. This is just one example of the many positive changes. Yet, there are a few things which still need to be worked on. For example, the BCSC has adopted a rather arbitrary definition of what it calls a "public" company. If a company has more than 50 external investors, they consider it public. Yet, to be a publicly traded company, you have to have at least 300 shareholders (a CDNX requirement). This is an important distinction because some of the exemptions disappear if a company is no longer considered a "private issuer". Yet, it isn't really public, either - so it'll find itself in a no-man's land area with respect to accessing capital.

Other government bodies, notably **Canada Customs and Revenue Agency** (CCRA), have a completely different definition of what they call a public company with respect to taxation. Hence, more confusion.

Complete details can be found at the Commission's web site at [www.bcsc.bc.ca](http://www.bcsc.bc.ca). The BCSC is still

accepting comments and feedback until the end of the month. They've been really good at listening to, and accepting feedback from, all stakeholders. Be heard.

## 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. They provide companies with an alternative to traditional venture capital financing. CPCs are the continuation of the former VCP and JCP programs on the Vancouver (VSE) and Alberta Stock Exchanges.

Since the CPC program was launched in B.C. a few years ago, more than 250 CPCs have been formed and more than 30 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. I'm even seeing a number of CPCs looking at merging with one another to pool their capital.

I note from a recent brochure produced by the CDNX that since the CPC program was invented in Alberta, more than 1200 such entities have been created and have raised in excess of \$3 billion in equity since 1987. WOW!!

24% of the CDNX companies which graduated to the TSE in 2000 started off as CPCs.

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 monthly basis. In the last column, I mentioned that this chart would be updated to Oct 31st. My apology - it'll be updated at the end of November. Not to worry, though, these CPCs have lost a lot of momentum.

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 Nov 27th and the topic will be "From Research to Commercialization" and will discuss corporate challenges in moving from the development phase to product commercialization. Questions such as "What are the key manufacturing issues that come up when a company transitions from R&D to commercialization?" will be covered. Details at: [www.vef.org](http://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

I was delighted to see some light on the IPO front. **Shoppers Drug Mart Corp** floated its IPO earlier this week, and in spite of the pall cast by Monday's plane crash in NYC, it was able to place 30 million shares in the market at \$18/share. These will start trading on the TSE on November 21st.

A **Vancouver Sun** article last weekend picked up on the recently updated T-Net100 list. The Sun's reporter put a negative slant on it noting that **360networks** (TSE:TSX) appeared at the top of the list, yet it is currently operating under receivership protection. She wondered how this could be since the list was called the "industry's benchmark for success." It's an interesting observation, but omitting it would mean ignoring the fact that it did ramp up its revenues in very short order. And, let's remember that receivership is more synonymous with intensive care than it is with death and it ain't dead yet. 360networks, which IPO'd (is that a verb?) in April 2000, had revenue of \$761

million for its FY2000 (Dec) whereas **Creo Products Inc** (TSE:CRE) ranked second at \$675 million and **PMC Sierra Inc** (NASDAQ:PMCS) placed third at \$637.8 million. In a column some time ago, before 360networks existed, I was contemplating which firm might be the first to pass the \$1 billion mark. I'm still wondering.

The Loonie is down 7% since beginning of the year and 2.4% down since 9-11. In contrast, the Mexican peso is up 4.5% and 2% respectively. Maybe it's suffering from a liquidity crisis? It strikes me that the Loonie is just like a junior CDNX stock - even if it's good, no one's noticing and no one cares. It just keeps inching lower and lower. No one wants to buy it. So, should we merge it with a currency that's got good branding (no not the peso - the dollar!)? Or, we just wait till it's a dime (US). **Sherry Cooper**, BMO's economist, seems to be advocating such an action, noting that nothing is likely to change it.

I'm glad I'm in high tech and not in the travel industry. I note that the Government of Canada has announced a \$20 million ad campaign to encourage travelers to take flight. Those of you who've traveled recently may agree with me that the best way to get folks mobilized again is to reduce the hassle factor. Security checks, especially the line-ups, add considerably to the stress factor associated with travel today. Since airlines pay for these checks, they ought to insist on prompt (and no less thorough) service. Is that too much to ask? I'm quite convinced that some of the security people equate deliberate slowness with increased security. I suppose that fewer travelers mean fewer security risks! That's no way to build an industry. And, while I'm at it, am I alone or have you noticed how the airlines seem to be using the present malaise as a justification for their inefficiencies? The last couple of Air Canada flights I took had us wait at the arrival (not departure) gate for more than 15 minutes waiting for the ground crew to get off their coffee break and another 30 minutes to unload luggage. That's simply unacceptable. [Funny! I just arrived in Toronto after typing the above while en route and guess what - no luggage! Serves me right for being mouthy!]

Do email change notices drive you nuts? @home.ca (bankrupt!) email IDs are changing to shaw.ca and rogers.ca (although Rogers is sticking with @home for the time being opting for a little bribe to get users to switch). What a nuisance! The only thing worse is people with multiple emails that haven't figured out how to manage them properly. For example, I just love those people who give you three or four addresses telling you this one's for personal use, this one's for business, this one's for weekends, etc. For the small cost of getting one's own domain, I think the investment is well worth it. After all, how can anyone reach you if you're a victim of downsizing or a defunct ISP?

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? 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 Harbour Centre campus at 515 West Hastings St. More information can be found at [www.sfu.ca/time](http://www.sfu.ca/time). PS - there are some great facilities for holding your company meetings.

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

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