



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

**Angels fly in BC, Trading the BC Techs, Capital Pool Corps Update and Local Happenings**

**Angels fly in BC**

I spend a lot of my time working with early stage technology companies, such as university spin-offs, in raising equity capital. One source of early stage funding is angel investors. In fact, it may be the *only* source for many nascent ventures. And, just so you don't think that we are talking small potatoes here, I guesstimate that Angel investing is approaching one-fifth of the magnitude of funding provided by venture-capital companies. In B.C. last year, just over \$400 million (not much, is it?) was invested by venture capital companies. I figure that Angel investing amounted to at least \$60 million.

In comparison, American estimates range from U\$10 billion according to PricewaterhouseCoopers' Kirk Walden, director of venture capital research all the way to U\$35 billion with 400,000 active angels according to Jeffrey Sohl, director of the Center for Venture Research at the University of New Hampshire.

There are two characteristics which, in my view, differentiate angel investors from other investors. An angel is someone who a) has built his/her own technology company and b) invests his/her own money in new ventures. Because they are accountable only to themselves (and perhaps their spouses), Angels take more risks. At least it appears that way. I would argue that their "domain expertise" makes them more comfortable in taking risks which we should not expect traditional venture capitalists to take. After all, VC's invest other people's money and they have an obligation to be more cautious. Whereas an angel can assess an opportunity fairly fast, VC's need time to do their "due diligence". VC's should think of reasons why *not* to invest (they're very good at this). Angels think of reasons why they should invest. VC's are very smart and they have to make a lot of money for their investors whereas angels are very creative and are not focused on just money (although that's fun, too).

Angel investors are also magnets for Venture Capital. VCs are more likely to invest in companies backed by angels. Companies that have difficulty attracting angels are probably wasting their time in going directly to VCs.

One trend which I see emerging is the formation of angel funds. Such funds are created when a number of angels, as a group, decide to pool their capital in a single entity which will make investments on their behalf. This is fine insofar as it may create VC-style pools intended for earlier-stage investments. On the negative side, though, such pools may operate more formally and slower than fast-acting, hands-on angels. It also means that individual angels are now doing angel-investing mutual-fund style as opposed to the focused, targeted rifle shot approach.

In the USA, formal angel groups are increasing their investments now that valuations for startups have fallen. Among them are **Angel Capital Network** of Sausalito, California; **Band of Angels** of Silicon Valley; and **CommonAngels** of Lexington, Massachusetts. Here in B.C., there are no highly visible angel groups although there are some informal groups and perhaps some formal ones in the works.

One pool, **CommonAngels** of Massachusetts limits its investments by putting a U\$5 million limit on valuations, forcing it to invest mainly in startups. I like this criterion. Of the 18 companies the group has invested in since its formation, only one has failed. **Angel Investors LP** in California has, on the other hand, not fared so well. About 40 of the 200 companies it invested in are out of business. Still, that's not so bad for this type of activity. Angels are not looking for a high success rate. They are looking for a few BIG winners.

Over the past few years, Angel investing in B.C. has increased substantially as many technology entrepreneurs were able to cash in some of their founders stock at high multiples. In recent months, prospective angels are not as keen to liquidate their positions at one-tenth of there they were a year ago.

Although the investment capital is not flowing quite as freely as it did last year into back-of-the-envelope business plans, there is still a great appetite for new opportunities, especially now that business valuations have come back down to earth.

Unfortunately, I see almost no appetite at all for concept companies trying to use the internet as a vehicle for selling various products and services. Some say that angel investors are out to lunch these days. There's considerably more emphasis on some solid, protectable intellectual property than just having a great idea.

So, if you're an entrepreneur with more than just a great idea, and you want to make contact with B.C. angels, a good starting point is the Vancouver Enterprise Forum's website at <http://www.vef.org>.

### **Trading the BC Techs**

This week, I attended a meeting of financial analysts at which there was a presentation by **Standard & Poor's** on its plans to introduce a Canadian venture- capital-based index that would include Canadian Venture Exchange-listed companies and possibly some small Toronto Stock Exchange companies.

The idea is to make this an exchange-tradable index to allow investors to buy and sell the index. Many indexes, such as the popular "Cubes" (i.e. the highly liquid **Nasdaq QQQ's** which have traded in the U\$33.60 - U\$109.12 range this past year), and the **i60's** (on the TSE) track particular market sectors and allow investors to trade in these, often beating so-called "managed" mutual funds. Such ETF's (Exchange Traded Funds) are popular because there are minimal fees associated with them, liquidity is very high, and they can be bought and sold as easily as company shares.

In B.C., we created the T-Net20 index of the top B.C. tech companies three years ago in an effort to track the progress of our industry. This index, which started at 1000 in January 1998, actually shot over the 10,000 mark just one year ago. Today, it's in the 1500+ range. To me, that's fantastic - a 50% increase in only two years! Others will tell you that's terrible - a loss of 80% in just one year.

Now, wouldn't it have been fun to actually have gone for a ride on this roller-coaster? The only way to have done that would have been to invest millions in the basket of stocks in this index. If the index itself were tradable, then investors could have enjoyed the ride with as little as a few thousand dollars.

From time to time, many readers have asked if they can trade an index like the T-Net20. I can't help but wonder if such a vehicle would be of interest to investors - especially those who believe that BC's tech sector is still in its early growth stages with lots of upside potential. What do you think? Send me your comments.

In the meantime, though, what are you going to ride? (ride seems to be an appropriate word these days). When we starting tracking the tech sector just over 3 years ago and when we started off the T-Net20 at 1000, the total market cap of the 20 companies in the index was only \$5.6 Billion. **Ballard Power** (TSE:BLD) was at the top of the list with almost half the total value - \$2.5 billion and **PMC-Sierra** came in second at \$1.3 billion. Today, Ballard's market cap is sitting at more than double that - around \$5.1 billion while PMC-Sierra has more than tripled to around \$5.2 billion (forget that it went to more than \$40 billion).

Here's what the list looked like three years ago:

Company	May98 Mkt Cap (\$000)	Apr01 Mkt Cap (\$000)
Ballard Power Systems	3,725	5,100
PMC-Sierra Inc	1,812	5,200
QLT PhotoTherapeutics Inc	730	1,900
Sierra Systems Group Inc	248	54
A.L.I. Technologies Inc.	223	52
Angiotech Pharmaceuticals Inc	194	903
AIM Safety Company Inc	153	40
MDSI Mobile Data Solutions Inc	150	66
Mainframe Entertainment Inc	88	17
ID Biomedical Corp	93	112
QI Technologies Corp	93	15
Bluestar Battery Systems Intl Corp	86	n/a
Forbes Medi-Tech Inc	93	45
Epic Data International Inc	72	5
Westport Innovations Inc	75	306
Spectrum Signal Processing Inc	76	22
Stressgen Biotechnologies Corp	78	229
Micrologix Biotech Inc	69	149
Xillix Technologies Corp	65	13
Avcorp Industries Inc	58	18

Although they're not all on the list today, not a single company has failed. One moved to the USA (**Bluestar**). Note that this is the *original* list. Today's list looks a lot different since the top 20 ranking has changed considerably as companies such as **Creo Products** and **Pivotal Corp** went

public, bumping others off the list.

Interestingly, the Biotechs in the group have generally fared much better than the infotechs.

Bottom line: BC's a good place to invest, the tech sector is still young, and there's still lots of upside room (especially now!).

### **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 and Alberta Stock Exchanges.

I mentioned before that this program, which has been very popular in the West, may soon be available to Ontarians. The Ontario Securities Commission has finally given its support.

However, due to the recent talks about the CDNX becoming part of the TSE, I worry about the future of this program. I have a hunch that the CPC program may be a victim of this merger.

Although they sound great in principal, I must confess that CPS are not - in practice - working out as well as everyone had hoped. Most of this is due to the fact that it takes a great deal of time and work for a CPC's directors to find a winning deal and if and when they do, there is just so much legal nonsense - regulatory red tape - that good deals can be lost because they take so long to consummate. Major overhaul of the rules is needed.

Each month, we identify all the new CPC companies as well as those which are about to begin trading and those which have completed their qualifying transactions (i.e. graduated from the CPC).

New additions to the list are **Amberstone Capital Corporation, Capalta Inc., Group Pacific Capital Inc., Tamerlane Ventures Inc.,** and **Vista Investments Inc.**

Capalta and Vista are from Alberta while Amberstone, Group Pacific, and Tamerlane are from BC.

Since the previous update, the following companies have come to trade: **Colt Capital Corporation, Cyan Corporation, ebisdot.com inc., Environmental Management Solutions Inc., EPS Capital Corp., Mountainview Energy Ltd., Sinotec Ventures Corp.,** and **VistaTech Corporation.**

Since the previous update, the following companies have been deleted because they have completed their Qualifying Transactions: **Clarity Telecom Networking Inc., Kirkless Capital Inc.,** and **Vast Capital Pool Ltd.** (which took over **UserFriendly.com**)

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**

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

## Local Happenings

**Forrester Research**, Inc. claims that the Internet is redefining the way business is done in Canada and that by 2005, B2BeCommerce in Canada will surpass C\$270 billion. Next Thursday (Apr 12), Bruce Temkin of Forrester will be giving a presentation in Vancouver. He leads Forrester's research into the Internet's impact in reshaping business-to-business (B2B) relationships. His areas of expertise include eBusiness strategy, restructuring of distribution channels, and the evolution of Internet-based business models. Register ONLINE [www.bctia.org/events/registration.html](http://www.bctia.org/events/registration.html).

The next [Vancouver Enterprise Forum](#) event will be held on Tuesday, April 27th at Science World. The topic will be: "Genetics/Genomics", moderated by David Ing of Pacific-International. Just this week the federal government announced \$136 million in funding to Genome Canada of which close to \$40 million will flow to B.C. for research. We can expect many new companies to be formed to pursue the exciting opportunities which will result from this research. Come and learn more about this fascinating subject.

About New Ventures BC - The **New Ventures BC** Competition is an annual event open to all BC residents, with prizes totaling \$125,000 - which is believed to be the largest of its kind in North America. Individuals with a new business idea can attend seminars and networking information sessions that will give them the chance to turn their idea into a successful startup. A number of these are scheduled to take place during the month of May. Check [www.newventuresbc.com](http://www.newventuresbc.com) for details.

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's AGM here.

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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