



**Tech Futures:
June 29, 2001**

By [Michael Volker](#)

Tax Freedom Day, R&D Pipeline, Corporate Performance, Capital Pool Corps Update

Tax Freedom Day

School's out and Bill Gates must be a happy camper in view of yesterday's court ruling in **Microsoft's** favour. This, along with the recent Fed rate cuts, may give the tech market a little boost.

Today is "Tax Freedom Day" - the day of the year when we start working for ourselves, according to Vancouver's **Fraser Institute**, instead of for federal, provincial and municipal governments. Thanks to last year's tax cuts, we get to enjoy this freedom five days earlier this year.

Our American friends, though, have been working for themselves since May 3rd. The reason we're farther behind is because the taxes used in the Institute's computation include income taxes, provincial sales taxes, the federal Goods and Services Tax, property taxes, capital gains taxes, health, social security and payroll taxes, import duties, license fees, taxes on cigarettes and alcohol, fuel taxes and hospital taxes. I mention this because in my previous column I made mention of the fact that the income tax gap had pretty well closed between Canada and the USA.

Once upon a time, in 1961, the date for Canadians was May 30th. I wonder when it'll be next year?

The R&D Pipeline

In the previous column, I wrote about [university spin-off companies](#) noting that the **University of B.C. (UBC)** and **Simon Fraser University (SFU)** have created over 150 spin-off companies. The July issue of **Financial Post Magazine** notes that more than 773 spin-off companies have been created (as of last September) by Canadian universities.

Some readers pointed out that I shouldn't forget the other research institutions. For example, spin-off companies from the **BC Cancer Research Centre** have pumped many tens (if not hundreds) of millions of dollars into the BC economy and been responsible for creating a growing pool of technological entrepreneurs. Point taken.

What drives this, and indeed is the foundation for technology ventures, is **Research and Development (R&D)**. Canada's **Natural Sciences and Engineering Research Council (NSERC)** provides much of the university R&D funding (around \$500 million) that's behind the technology being commercialized by these spin-offs.

In its recent annual survey on Corporate Canada's R&D spending, **Research Infosource Inc.**

reports that total R&D expenses for the top 100 Canadian companies (i.e. top 100 ranked by R&D expenditures) accounted for \$11.1 billion in 2000. This represents an increase of 28.5% over 1999. Sounds good, right? Actually, they should have spent even more if you compare expenditures to revenue (which you should). Because revenues were up substantially for this group, R&D as a percentage of sales was only 4.4% (compared to 4.5% in 1999).

These 100 companies account for 85% of R&D performed by all companies in Canada (i.e. \$13Bn). **Nortel**, the top-ranked company, invested nearly \$6Bn in R&D. That's almost 20 times as much as the #2 firm - **Pratt & Whitney Canada Corp**

Nortel shareholders may be thinking that some of that "expenditure" could have been put on the bottom line. But, if you take a longer term view of these expenditures as an investment, it will benefit shareholders in future quarters. I've seen many companies compromising on R&D in favour of bottom line results. That can be a mistake. Info-tech companies can take a lesson from their biotech colleagues which appear to have a better appreciation of this.

A recent column in the Globe and Mail questioned **Research in Motion's** (TSE:RIM) plans for follow-on products to its successful Blackberry email device. Another story in the same paper noted that one way of valuing companies - using the example of biotech companies involved with Cancer therapies - was to look at their "R&D pipeline", i.e. what are they working on that may lead to new commercial opportunities?

Most tech startups have a technological advantage because it is some leading edge technology which gets them going in the first instance. But what happens after they've been in business for a few years busily reaping the benefits of their first technology? What will they do for an encore? How are they nurturing their R&D connections. For smaller companies, who cannot afford to do their own R&D, links to universities and other institutions are of critical importance.

Here in B.C. we're lucky to have organizations such as the **B.C. Advanced Systems Institute** which address this very concern, i.e. building bridges between companies and university researchers. It assists companies (large and small) by giving them access to intellectual capital.

Corporate Performance

The Globe's **Report on Business Magazine** (July issue) features the Top 1000 - measured in terms of PROFIT. Now, that's a new one! Most rankings are by revenue or by market cap, but this one is actually concerned about the bottom line.

To be fair, **Business Week** (June 18) used an interesting approach in producing its Info-Tech 100 report. Its ranking was based on four equally weighted criteria: shareholder return, return on equity, revenue growth, and total revenues. As mentioned in the previous column, Canada's **Celestica Inc.** (NYSE:CLS), a contract manufacturer, was the #1 pick. Celestica was an **IBM** spin-off (IBM is #6 on the list) aiming for U\$20 billion in revenue by 2003.

With respect to corporate performance, I can't resist mentioning another company even though it isn't in B.C. (but which now has a B.C. connection - see below). The company is **EMJ Data Systems Ltd** (TSE:EMJ). Although not exactly a tech company, it is certainly in the tech industry, being a specialty distributor of hardware and software products. It ranked 465th on the Profit 1000 list. EMJ will take-on innovative products of young companies - long before traditional distributors will even consider them.

Why do I mention it? Well, have you ever heard of a company in the tech industry, especially a re-seller, that actually pays a dividend to its shareholders? Take a look at this:

Yesterday Jim Estill, EMJ's president and founder, reported that EMJ Data Systems will be paying a special dividend in the amount of 80 cents per share (no, this is not a typo!) on its 7.7 million outstanding common shares to shareholders of record at the close of business July 11, 2001. (If you've never received a dividend on a stock - you still have time). EMJ has paid a regular eight-cent-per-share dividend every six months (16 cents per year). This special dividend will be replacing the next three regularly scheduled dividends. According to Jim, "One of our goals is to offer a fair return for our shareholders. This dividend is one way of offering this return." In addition to the 16-cent-per-year dividends, in July, 1998, EMJ issued a special dividend of \$1.50 per share.

The company recently released its third quarter results for the period ending April 30, 2001. Sales for the nine months ended April 30, 2001, increased \$31.7-million or 26 per cent to \$153.8-million compared with the same period the previous year. Income from operations was \$5.1-million for the nine months ended April 30, an increase of 37 per cent or \$1.4-million from the previous year. The company's 12-month trailing earnings per share are 75 cents.

Now, get this: this is EMJ's *87th* (again, not a typo) consecutive quarter of operating profit!!

Based on the current per-share price of *only* \$5, EMJ's market cap is less than \$40 million, i.e. a microcap stock with annual sales approaching \$200 million.

Jim's a little old-fashioned. He read Warren Buffet's book (he lent me his copy a few years ago and I still haven't returned it) and has obviously bought into Buffet's basic values. Now, I just hope that Buffet knows about EMJ because it would fit his criteria to a tee. Jim is value-oriented.

His style is interesting. He's very hands-on and most unpretentious. Although he can well afford the trappings and accoutrements of an executive's lifestyle, Jim likes to fly on discount fares and stay in inexpensive hotels.

Jim, a **University of Waterloo** grad, sits on a number of boards including Research and Motion as well as an emerging BC company, **IP Applications Corp** (CDNX:IAP), a local internet startup.

Fortunately, he also recently agreed to serve on the Board of the B.C. Advanced Systems Institute (mentioned above).

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 program was launched, more than 250 CPCs have been formed and more than 30 have completed their so-called Qualifying Transactions (QT). It takes at least a year - usually longer - for a CPC to find a suitable takeover candidate and another six months to a year for a deal to be finalized. One way to expedite the process is to eliminate the need for a special shareholders meeting to approve the deals - leave it up to the CPC boards.

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.

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

Footnotes

FP's July magazine has a piece on the wealthiest 40 Canadians under 40. It makes for some interesting reading (aspiring entrepreneurs take note). I'm just glad I'm over 40 so I don't have to try to get on this list.

Last week, the [Vancouver Enterprise Forum](#) held its end-of season Annual Celebration Dinner wrap-up event. The subject was: **Wireless Data in BC: Twenty Five Years to Overnight Success**. The Keynote speaker, **David Sutcliffe**, President, Chief Executive Officer and Director of **Sierra Wireless** (TSE:SW) gave a riveting and enlightened talk on the evolution of the wireless industry in B.C.

Although the summer is usually a quiet time for the Tech industry, a complete calendar of technology events can be found on [T-Net's Events page](#).

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. PS - there are some great facilities for holding your company's AGM.

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. Copyright, 2001.

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

[Tech Futures Archive](#)

T-Net 20 High Tech Stock Index
