



Tech Futures:
November 30, 2001

By [Michael Volker](#)

Creo joins Billion Dollar Club CDNX Survivability Corporate Governance Report, Good Buys, CPC Comments and Update, and Coming Events

Creo joins Billion Dollar Club

We have a billion dollar winner! Burnaby's **Creo Products Inc** (TSE:CRE) is the first B.C. technology company to hit \$1 billion (Cdn) in sales. It is the first member of this exclusive club. When **Dave Brown** of Creo made mention of this in his talk earlier this week at the Vancouver Enterprise Forum, he received a spontaneous round of applause. And well deserved. When I first came to B.C. a dozen years ago, there were no \$100 million tech companies. Now there are more than 10 that have this distinction. In the 2000 survey, Creo ranked second at \$675 million and **PMC Sierra Inc** (NASDAQ:PMCS) placed third at \$637.8 million.

For the fiscal year ending Sept. 30, 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 the result of the company's April, 2000, acquisition of the prepress division of **Scitex Corporation Ltd** Adjusted earnings for Creo were \$27.1-million or 54 cents per share (diluted) for the fiscal year ending Sept. 30, 2001, compared with adjusted earnings of \$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. valued at approximately \$78-million. Scitex continues to hold 6.25 million of the original 13.25 million Creo shares acquired in April, 2000, in exchange for its digital preprint and print-on-demand assets.

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. Trading in the C\$18 range, Creo stands a good chance of getting back to its recent highs at twice that price as selling pressure abates and demand rises.

CDNX Survivability

Nearly half of the **Canadian Venture Exchange's** staff, which numbered about 260, has been cut from Vancouver and Calgary since the Toronto Stock Exchange acquired the junior exchange in July. Just this morning, I learned that **David Hess**, the CDNX's chief, is stepping down, too.

I'm a little confused, though, about a story in this morning's Globe which states that Hess's departure is a normal occurrence when two organizations merge, stating that you can't have two presidents. The article then says that **Gerald Romanzin**, Exec VP, is filling Hess's shoes for the time being - until a replacement is found. Figure that out.

About 47% of CDNX employees are leaving, or have left, the organization, according to TSE spokesman **Steve Kee**.

I worry that soon nothing will be left of the CDNX. Suspicions and worries about its acquisition by the TSE may well turn out to be the proverbial self-fulfilling prophecy. As we see more consolidation in the investment industry with all the major dealers getting absorbed by the big banks (e.g. **CIBC's** recent deal to takeover **Merrill Lynch**), the junior companies and bit players are the ones that'll be dealt out of the market.

This is not good. Emerging tech companies need all the help they can get. The junior market (in spite of all the VCs and well-heeled investors proclaiming that it's not a good idea to "go public early") is needed to create another avenue for assimilating capital and flowing it into those deals were VCs fear to tread.

The logic is obvious. VCs and institutions must think of reasons why they should *not* invest. After all, they are investing other people's money and they must do so diligently and prudently. They must think of all the things that can go wrong and have answers - from management - as to why they should still invest. Small investors - such as angels and junior speculators on the other hand, think of reasons why they *should* invest. Their little company might just make it into the big leagues.

Another key reason why something like the CDNX is needed is that investors can invest much smaller amounts - i.e. many investors with modest amounts rather than just a few investors with huge amounts. A VC invests millions - and of course will not, and should not, take big risks. But a thousand investors can easily afford to invest one or two thousand dollars each and not lose any sleep if they lose it.

I chuckingly (is that a word) remember a comment that was once made about the former VSE in comparison to lotteries (because flamboyant stock promoter **Murray Pezim** once said the VSE was like a lottery - giving speculative investors a chance to strike it rich). I think it was a former commissioner who retorted by saying that "comparing the VSE to a lottery is unfair to the lottery".

Even now, I keep running into people who shun the CDNX. I would love to have so much dough that I could take this aloof position, too. But the reality remains: young companies need access to all types of capital - from adventure to venture capital.

If it keeps going on its present course, the CDNX will fail. For the first nine months of this year, CDNX financings totaled only \$882 million, down from almost \$2 billion in the same period last year. Daily trading on the CDNX is a paltry \$10 million. In comparison, VC investments for the same period this year are \$3.8 billion, down only a wee bit from \$4.4 billion for the first 9 months of 2000.

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

Corporate Governance Report

A must-read is the final report of the Joint Committee on Corporate Governance (available at www.jointcomgov.com).

The study makes fifteen suggestions (down from its originally proposed 27 in the interim report last March) for improving the governance culture in corporate Canada.

Stock Exchanges such as the **TSE** and **CDNX**, which along with the **CICA (Canadian Institute of Chartered Accountants)** commissioned the study, are deciding on how far they should go in requiring that their listed companies comply with same.

The head of the **Centre for Corporate and Public Governance Richard Finlay** in Toronto thought that the report was weak. His point is that we shouldn't have to remind boards what their

job is and that there should have been some hooks to eliminate the "cozy CEO clubs" where CEOs appoint each other to their respective boards.

One of the recommendations was that there should be an independent director who acts as board leader - the report stopped short of saying that this should be the Chairman. This could be unworkable and lead to a power struggle especially if the CEO is also the official board chair. The report did not insist on having different people in the roles of chairman and chief executive.

I sit on a lot of boards - ranging from the tiniest little startup company which hardly knows how to spell "governance" all the way to a senior Nasdaq company. And I observe many others in action. I can tell you this: all companies can improve on their so-called governance practices. I'm always astonished at how little directors (including yours truly) really understand about this. So, even though Findlay may be a little disappointed, I think the report is a good first step at getting the un-informed just a little more enlightened on how to govern a company.

Since the size of an organization will, at least from a practical perspective, dictate the degree to which a board should be obsessed with governance matters, what I particularly like about the report is that all companies can adopt the notion of a "board charter". This is a document which spells out the *modus operandus* of that company's board at the time in its life, i.e. what are the expectations of board members and precisely what are their roles and duties?

Good Buys

As mentioned in my previous column, in the spirit of getting back into the market, I'm allocating a few column inches to draw attention to some of our emerging publicly traded B.C. tech companies.

Among the morass of negative cash flow emerging technology public companies gasping for breath is a little gem that has just turned the breakeven corner and is now making a profit. **Jenosys Enterprises** (CDNX: JET) in Richmond, BC, makes electronic bingo systems and just posted its second consecutive quarterly profit with 6 month sales of just over \$2.5 Million and net income of just over \$200,000. For the recent quarter, gross margins increased to 52.4% versus 39.5% and an expense reduction of 28% was achieved over the same period last year. Those gross margins are pretty decent for a company producing both hardware and software products, e.g. gaming terminals.

With some 20 million shares issued and at a current price of \$.10, the company's market cap is only \$2 million - the kind of valuation that very early stage private investors usually enjoy. Speaking of investors, the company is raising additional capital now but plans to do so without diluting shareholders at current levels. It'll do this via a convertible debenture offering which is convertible at higher prices, e.g. \$.30. This will avoid having a lot of cheap stock on the street.

The company is moving from a single local customer (BC Lottery Corp) to a few in the US. Bingo is played all over the world and with such a low market cap, this is surely a company to watch. Who knows, maybe you'll find yourself shouting "bingo", too!

Infowave Software (TSE: IW) is a local company which I like because of their ambitious plans and the space that they're in. It is establishing itself as a leading wireless technology provider. I heard CEO **Thomas Koll**, ex-Microsoft, speak at the recent Softworld 2001 Conference held in Vancouver earlier this month. 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!

Earlier this week, Infowave closed a first tranche of its previously announced private placement. The company issued 30,062,576 special warrants for gross proceeds of US\$13,112,757. It might close up to an additional \$1,887,243 on similar terms prior to the close of business today.

Revenue for the nine months ended Sept. 30, 2001, was \$2,654,386 - 256% higher than the \$745,013 reported in the first nine months of last year. Still modest for a TSE company - but

moving in the right direction.

Infowave was named one of the 50 fastest growing companies in Canada by **Deloitte & Touche, LLP**.

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.

If you add up all the CPC, VCP, and JCP companies that were formed since Alberta invented the idea back in 1987, you'll find more than 1200 such companies. In total, these have raised more than \$3 billion (yes, that's a "b") for growing companies.

Of all the CDNX companies which have graduated to the TSE in 2000, 24% started off as CPCs. Two notable B.C. companies that started this way and are now TSE listed are **Burntsand Inc** (TSE: BRT) and **Westport Innovations** (TSE: WPT). Another one, **RDM Corporation** (CDNX: RC) was one of the first JCP's which I launched back in 1987 on the ASE. In the early 90's I headquartered it in Vancouver but 5 years ago it moved to Waterloo, Ontario where its main business is based. I couldn't resist mentioning this one because there's a thumbs-up buy recommendation in today's Globe and Mail calling for this stock, now just shy of \$1, to hit \$2 in the near future.

Since the CPC program was launched in B.C. a few years ago, some 300 CPCs have been formed but only a small number, i.e. less than 50, 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. Under a relaxation of rules by the CDNX, CPCs are permitted to merge with one another, coincident with acquiring a qualifying company, thereby eliminating the need to raise additional funds.

When the VSE decided to introduce its version of the program in 1999, a capital limit of \$700,000 was imposed. The reasoning behind this was that, until a real business was identified, there shouldn't be too much public money at risk. The concept was to use this initial sum to seed the company and then do a concurrent placement of shares when an acquisition was nailed down. Most CPCs have only a few hundred thousand dollars in the till - especially after paying all the legal and regulatory fees and bills.

Of course nowadays getting investors to pony up with the extra dough is proving to be a little tough in light of the lack of public market euphoria. It's also tough for a CPC with only \$500K or so to attract an acquisition with such a sum and only a promise for more. Early on, I suggested a larger limit - say \$2m - and still believe that this should be done. This amount is in the ballpark of a small IPO and given a burn rate of \$50K to \$100k per month, it would give a speculative startup 3 years or so to hit some milestones and legitimize its existence.

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. Since today is Nov. 30th, the last trading day of the month, we'll be updating the afore-mentioned chart after the markets close so you might wish to check back early next week for a fresh update.

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 January 22, 2002 and the topic is "Finance: Venture Capital, the Banks, and the Market". This is always a popular one and tends to sell out in advance. Details will be available at: www.vef.org. The VEF's new tag line is: "VEF - Advancing Technology Entrepreneurship."

There's usually no VEF event scheduled in December. Instead, the VEF and other local groups join together to host a festive **Christmas Tech Lunch** next Thursday, **December 6th**, 11:30am - 2:00pm, at The Park Ballroom - Four Seasons Hotel in Vancouver. In the spirit of the giving season, this year's Christmas Tech Lunch features a silent auction with MC **Jill Krop**, from **BCTV**. The **BC-TIA** is hosting this in cooperation with **BC Biotech**, **Applied Science Technologists & Technicians of BC** (ASTT-BC), **Science Council of BC** (SCBC), **Geekrave**, **Wired Woman Society**, **Vancouver Enterprise Forum** (VEF), **Fraser Valley Technology Network** (FVTN), **New Media BC** (NMBC). Check www.bctia.org to book a seat or a table.

The silent auction is your chance to get involved and help a great cause. All donations of goods or services are warmly encouraged and appreciated. Donations of \$250 or greater value will be part of the silent auction and will receive table top signage. Proceeds raised from this year's charitable activities will go to Covenant House. If you are interested in making a donations of goods or services please contact **Leanne Janzen** at 604.683.6159.

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

Footnotes

Since I mentioned the nuisance of *email change notices* in the previous column, I've received dozens and dozens of them - mostly due to the change from **@home** to **@shaw** or something else. What a pain! Job mobility and ISP changes will only add to that pain. Although this is no big deal for the home user, anyone in business with a half decent contact list is going to go nuts trying to keep up with this. For the small cost of getting your own domain, now around \$20/yr, why not end the pain? The investment is well worth it. Take control now. Be email savvy! (Hint: a personal domain name registration for a 1-10 years would make a good family Christmas present.)

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 teamed 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](#).

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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.

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