



**Tech Futures:
December 15, 2000**

By [Michael Volker](#)

**Market Commentary, Christmas Stock-ing Stuffers, Orphans Orphans, IPO Watch,
Capital Pool Corps Update**

Market Commentary

Blame the market's performance on the uncertainty surrounding the presidential election. On Monday both the U.S. Supreme Court and a circuit court in Florida issued rulings the market construed as favoring Bush, and on Tuesday the market rallied sharply, with the tech-laden Nasdaq bouncing up 10.5% to 2889.80.

Now the election matter seems to have been settled. So now we can't blame this uncertainty for market actions we don't understand! There were no substantial market swings following Bush's victory. We'll have to find new explanations.

Now that Bush is in though, one of his first challenges will be to deal with the R-word, recession, i.e. is this a threat to the recent booming economy? This issue and how it is handled will largely determine market performance over the next few quarters.

Yet, Nasdaq remains in a bear market - more than 40% below its March peak, even after Tuesday's rally. Investors seem to have switched from studying business models to income statements.

For the time being, markets are more likely to react to earnings prognostications. The bearish crowd will no doubt be reinforced by the Microsoft earnings warning not to mention IBM, EMC and SUNW all of which have been downgraded.

In early trading today, Microsoft was slammed by almost 10%, due to its statement that sales for its second quarter ending Dec'00 would be off 5-6% from previous estimates. MS projects sales in the U\$6.5B range with quarterly earnings at \$.47/share.

B.C.'s **QLT Inc.** (TSE:QLT,NASDAQ:QLTI), no longer called QLT PhotoTherapeutics, saw 32% of its value evaporate yesterday as shares fell \$20.05 to close at \$41.95 on the TSE. The company said that its Q4 sales would be coming in between \$36M and \$38M as compared to analysts' expectations of \$40M. It's hard to believe that a 5% miss would knock the stuffings out of this stock. A buying opportunity, maybe?

I believe, based entirely on my own optimism, that being in the markets with a long-term perspective is the best way to play the game.

Christmas Stock-ing Stuffers

Not sure what to buy the kids or your spouse for Christmas? Well, why not give them a little piece of B.C.'s tech sector - especially now when bargain prices abound? This is not a bad time of year to buy, pursuant to tax loss sales and a general dwindling of market interest as many turn their thoughts to R&R pursuits.

Speaking of tax loss selling and gift-giving, here's an idea for you: take some of the stocks you really like, e.g. the ones you bought back in March and April at two or three times their current price, and give these as gifts. Maybe you can use the tax loss while at the same time giving someone you love a stock which you also love (or did).

And while we're on the subject, don't forget that a donation of stock to your favorite charity or your alma mater has some attractive features. Because of the way in which deemed gains on donations are taxed and how tax credits are applied, you can give a buck at a real cost to you of only a third or so of that amount. Check it out with your accountant and wish your cherished organization a Merry Christmas (or happy holiday, as the case may be).

Probably the best way to invest in emerging companies is via WOF - the [Working Opportunity Fund](#). WOF is one of the most active Venture Capital companies in B.C. Unlike other VC's which receive their capital from larger investors and institutions, WOF allows the average retail investor to get in on the action - and with a tax incentive to boot. The only catch is that you have to be a patient investor. You can't trade WOF shares day in and day out. You're unlikely to make many multiples on a WOF investment in a short time frame, but it is a good way to enjoy a fairly steady return. In comparison to the broader markets, e.g. the TSE300, WOF has fared fairly well as the following chart shows:

WOF Returns as of 31 Oct 2000 (Balanced Shares)					
	1 year	3 year	5 year	8 year	Since Inception
Excluding tax credits	42.1%	25.8%	18.9%	12.3%	11.3%
Including tax credits	48.6%	31.5%	26.7%	19.7%	18.6%
TSE 300 Index	34.1%	12.5%	17.4%		

WOF first sold common shares to the public in 1992. In January 2000, all previously issued common shares were exchanged for Balanced Shares on a one-for-one basis and continued the same investment strategy. In January 2000, WOF began offering Growth Shares. The Growth shares were designed to invest not only in venture and fixed income investments but also in public equities and debt securities offering a higher risk/return potential. Both classes give investors a 15% provincial and 15% federal tax credit. Both are 100%RRSP eligible.

For investors who bought WOF shares in 1993 and earlier (like I did), there's some great news. You can effectively redeem your shares and reinvest the same amount for another tax credit. Of course, to get the 30% cash break, you need to commit your funds for another eight years!

If you take a look at [WOF's investment portfolio](#), you'll see a nice list going back to November 1993 of the companies in which WOF has invested (including amounts). At the bottom of the list are the

dozen or so companies that WOF no longer has - either because it has sold its stake or written it off. This list also shows which companies in the portfolio are publicly traded.

Although WOF aren't listed on an exchange, most investment dealers can help you acquire some stock.

Itemus Inc. (TSE:ITM, \$0.61) was recently rated a STRONG BUY by Paul Bradley of Canaccord Capital. Though not strictly a B.C. company, Itemus does own Yaletown-based IdeaPark. Itemus reports third quarter results ahead of expectations - an unusual surprise these days. Itemus reported Q3/00 revenues of US\$671k versus US\$330k in Q2/00. The company's balance sheet remained strong with a cash position of \$13M at the end of the quarter and a steady burn rate of US\$800k/month.

Itemus, an incubator fund, now has 20 investee companies under its wings. Canaccord's Bradley has a 12 to 18 month target price of \$3.45 for Itemus.

A few others worth mentioning: **QLT Inc** (see above), **Creo Products Inc** (TSE:CRE, NASDAQ:CREO), and **Pivotal Corp** (NASDAQ:PVTL).

QLT is trading in Toronto at \$43.50, near its 52-week hi-low range of \$121.30 - \$37.00. Creo, trading around \$34.00 (TSE), is also near its 52-week hi-low range of \$75.00 - 23.05. Pivotal lost some steam this week due to one bearish analyst's views and can be picked up at U\$37.00. Its 52-week hi-low is U\$18.75 - U\$75.88.

Where to shop or get some other ideas for some stocking stocks? Take a look at the list in my [previous column](#). This is the list of those publicly traded B.C. companies selected from the top 100 list of all B.C. tech companies. If I had the dough, I'd be getting into many of these!

If you want to look beyond just B.C., then I'd suggest checking out the [Nasdaq-Canada](#) list of companies. There are almost 150 Canadian companies on this esteemed list. The Nasdaq-Canada index, the CNQ, is currently at 902, up some 60 points from where it was at the end of November, but still off 98 points from its start on November 21st.

Happy Stock Stuffing Shopping and Happy Holidays!

Orphans, Orphans

Lately, I've been hearing the term "orphan" a lot - in reference to neglected companies, especially seemingly boring CDNX-listed junior companies. What does this mean?

These are companies which are thinly traded because investors just aren't interested in them. Usually analysts ignore these firms (hence low investor interest). Institutional investors aren't keen in them for the same reason.

Even if these firms are cash-flow positive, they typically trade at low Price-Earnings multiples. A good example of one of these (A B.C. non-high tech company) is **Sepp's Gourmet Foods Ltd.** (CDNX:SGO). Sales in its fiscal period 2000 were \$88.5-million, approximately 8 per cent higher than the \$82.2-million 1999. Gross profit increased from \$12.7-million in 1999 to \$13.5-million in 2000. Yet, in spite of this excellent performance in a tough industry, the stock is trading at only \$.80, half its 52-week high of \$1.60. With only 13+M shares issued, that puts a value of just over

\$10M on the company - less than its gross profit! What are we missing here? This firm is obviously sizzling in the kitchen but is being served up cold in the market. I suspect that the industry category and relatively low growth (albeit great performance) just doesn't excite many people.

I've talked before about how some great companies (such as QLT, Burntsand, ACD Systems, Westport, etc) got started as small junior companies and then graduated on to the TSE and/or NASDAQ. Whenever I look at the list of all public B.C. companies I wonder which of those on the CDNX are going to be the next graduates? Which are going to be the shooting stars?

I'll refer an observation from Brent Holliday's recent column, pursuant to some of his Silicon Valley observations (I was there recently, too. In fact - I lived there for a while in the mid-80's when it was just as exciting as it is today - at least to me). Brent observed that company entrepreneurs who are successful thing BIG and they think fast (and they fail fast, too and retrench). Does this mean that the dozens of B.C. pubcos on CDNX that have been plodding along for the past three or four years with no significant news, management changes, or growth are destined to be orphans? Quite likely. So maybe the best speculative bets in this category are the new ones.

Perhaps those with substantial management (or board) changes in the works are worth watching, too. Clearly the team makes the company. Those that are just idling along need to be rejuvenated with new blood. To me, in building companies, an ambitious mission statement is key. Back in the early 90's, Wal-Mart's mission statement was "to be a \$125B company by the year 2000". Guess what? Earlier this year, Wal-Mart reported sales of \$188Bn. It must have worked for them. And Wal-Mart is not high tech and it is in a very competitive business.

So, if you're thinking of buying into a junior venture which you think has some sizzle, check out how long the current team has been at the helm and what its vision is. Do you want to adopt an orphan? (Maybe a great idea if you want to provide some parental guidance for it!)

IPO Watch

Before looking at what's happening on the B.C. IPO scene, let's take a quick look south of the border.

In the U.S. markets, fresh public stocks have taken quite a beating. And many more deals are being delayed or withdrawn than are coming to market. The average IPO has shed 33% of its value in the four weeks since the still-undecided U.S. presidential election. Recently, only one deal has managed to reach the secondary market, while nearly a dozen have been withdrawn and a half-dozen others have been postponed or reorganized with new underwriters or a lower asking price.

Of the 437 offerings in the [IPO Express](#) database of done deals, only 35, or 8.0%, are trading higher than they were 31 days ago. The median company, **Radview Software Inc.**, (NASDAQ: RDVW), a producer of e-business software, was down 33% in the last month, and 73% since it went public on Aug. 9th. It came out at \$10, and closed recently at \$2.81.

Last week only one company, **Rigel Pharmaceuticals**, came to market, while four deals were restructured, one postponed and seven withdrawn. Rigel, a biotech firm, came out at \$7, traded as high as \$8.06.

Most of this year's U.S. IPOs have come from technology companies, and they have taken the brunt of the market's fickleness. Even **Palm Inc.**, the popular maker of handheld computers, shed

34% of its market value in the last month, though it remains ahead of its March IPO price by 28%.

In the Biotech world, IPOs of U.S. genomics and other biotechnology companies surged this year, garnering \$36 billion so far in 2000, more than four times the total of \$7.7 billion in all of 1999. Until this year, 1999 had been the best IPO year in the biotech industry's 20-year history.

The kind of biotech companies which are coming to market has changed. In the mid 1990s the latest technology was combinatorial chemistry, says John T. McCamant, editor of the Medical Technology Stock Letter, published in Berkeley, CA. "This year's hot group is heavily weighted toward genomics, bioinformatics and DNA chip companies."

McCamant believes that next year the action is likely to shift to pharmaceutical manufacturers, bringing back a shift to product companies.

"It takes roughly \$500 million to bring a product all the way from discovery in the lab to launch on the market," McCamant says. "One of our primary premises for why biotech is the single best long-term investment is the fact that, for the first time, the industry has the ability to develop its cutting-edge drugs unfettered by the watchful eyes of stingy corporate partners."

As for the IPO scene in B.C., not much is happening. In previous columns, four new offerings were identified. These are **Kinetek Pharmaceuticals Inc.** (www.kinetekpharm.com), **Sourcsmith Industries Inc.**, and **Beanstream Internet Commerce Inc.** Other IPOs are CPC and are covered elsewhere in this column.

According to Goepel McDermid, Kinetek's IPO "has been deferred pending improved market conditions." I'm sure that Dr. Steven Pelech, founder of Kinetek, is anxious for Kinetek to go public seeing as how he recently closed some private funding for his latest company, **Kinexus Bioinformatics**. But, according to a recent, Dec. 13th notice issued by the Ontario Securities Commission, the prospectus dated Oct 19th, has been withdrawn. So, it would appear that this offering has, at least for now, been pulled. That's painful. And, it was just in March of this year when Kinetek successfully raised just over \$20M in a private second round. It once again shows that building and financing companies at all stages of growth is tough.

Sourcsmith Industries Inc. (CDNX:SSM), the firm which helped NBC TV manage the planning, logistics and equipment inventory for the 2000 Olympics, started trading on Dec 4th on the CDNX under the ticker symbol "SSM". The gross proceeds received by the company for the offering (two million shares at 50 cents per share) were \$1-million. The company is classified as a software developer company. The shares are presently trading \$.50, but since the offering have gone as high as \$.75.

WaveCom Electronics Inc. (www.wavecom.ca) is a Victoria, BC company which designs broadband transmission equipment for data over cable and fixed broadband wireless networks. It seeks to raise approximately \$75 million at \$13-\$15 per common share. Pricing was supposed to be finalized in mid-November with a closing expected in the last week of November. This hasn't happened. When I called the company to check on the status of the IPO, I learned that the firm's head office is actually in Saskatoon (but the "boss" lives in Victoria). No one at either office could give me a definitive answer. Those who could were tied up in meetings. It would be nice if companies posted updates on their websites.

The most recently updated prospectus for WaveCom is dated October 20th. The company has a 12-year history of sales and profits. In its most recent fiscal period (June 2000), sales were almost

\$22 million with a \$4.5 million net income - after tax! Contact one of their underwriting agents - Goepel McDermid, Yorkton Securities, TD Securities, or CIBC World Markets. Note - if you look for Wavecom on NASDAQ - be careful! There's a French Wavecom (also a wireless company), which trades on NASDAQ under the ticker WVCM).

Beanstream Internet Commerce Inc's filed a preliminary prospectus on September 11th to raise \$1.575 million by selling 1.75 million shares at \$0.90 per share to BC investors only. Haywood Securities is acting as the agent. No news here, either.

As far as I know the CDNX still plans to introduce its own ETIF - i.e. an Exchange Traded Index Fund. The CDNX said that it will soon choose a company to create a new exchange index and provide index participation units to track the junior market's performance. Trading in the units could begin in the first quarter of 2001.

You can get a full prospectus on any Canadian IPO offering (or any Canadian public issuer for that matter) on the Sedar website at <http://www.sedar.com>.

While on the subject of IPOs, I recently read a report from the Conference Board of Canada which looked at the cost (to companies) of IPOs in Canada and the United States. The study showed that it is less expensive to do an IPO on the Toronto Stock Exchange than either on the New York Stock Exchange or the NASDAQ. They also found that there is less underpricing of IPO issues on the TSE than on senior U.S. exchanges. Does that mean that those who are lucky enough to buy shares via an IPO fare better in the U.S.?

Another point which I found particularly interesting in view of the fact that many companies aspire to get listed on NASDAQ is that there has been no clear trend in the number of Canadian companies listing on NASDAQ over the past five years.

The largest number of IPOs on the TSE fall into the U\$10M-50M range. For these, the direct IPO costs (commissions, legal, accounting, underwriting) run just under 10% on the TSE and slightly over 11% on the NASDAQ and 12% on the NYSE.

One thing's for sure, though, Americans think big: the average size of a NYSE IPO was U\$470.6M - almost five times the size of the average TSE IPO at U\$99.6M.

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. CPC's are the continuation of the former VCP and JCP programs on the Vancouver and Alberta Stock Exchanges.

I like CPCs from an investment perspective. Although one may regard them as speculative (indeed, they are), they are also an inexpensive way of getting in early and inexpensively. You can pick up 10,000 shares of a typical CPC for pennies.

New additions to the CPC list of companies are **Churchill Street Investments Ltd**, **Coventry Charter Corporation**, **Elite Capital Corporation**, **Glenwood Ventures Inc.**, and **Revolve Capital Corp.**

Churchill Street Investments Ltd. and Coventry Charter Corporation are from B.C. whereas Elite Capital Corporation and Glenwood Ventures Inc. are from Alberta. Revolve Capital Corp. is from Ontario.

Since the previous update, the following companies have come to trade: **Babylon Technologies Inc.**, **Digital Atheneum Technology Corporation**, **Dunsmuir Ventures Ltd.**, **Karisma Capital Corp.**, **Planet Organic Health Corp.**, and **SNC Equity Inc.**

The following companies have been deleted from the list because they have completed their Qualifying Transactions: **New Media Capital Inc.** and **Venturecorp Capital Inc.**

These updates now bring the total number of CPCs to 217 companies. Of these, only 25 have consummated their qualifying transactions.

Check our [Capital Pool Corporation chart](#) (in .pdf format) for a complete updated 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>.

Footnotes

You know how lawyers and others like to put interesting disclaimers at the end of the emails? Well, here's an interesting one that's going around at this time of year:

Please accept with no obligation, implied or implicit, my best wishes for an environmentally conscious, socially responsible, low stress, non-addictive, gender neutral, celebration of the winter solstice holiday, practiced within the most enjoyable traditions of the religious persuasion of your choice, or secular practices of your choice, with respect for the religious/secular persuasions and/or traditions of others, or their choice not to practice religious or secular traditions at all . . . and a fiscally successful, personally fulfilling, and medically uncomplicated recognition of the onset of the generally accepted calendar year 2001, but not without due respect for the calendars of choice of other cultures whose contributions to society have helped make Canada great, (not to imply that Canada is necessarily greater than any other country or is the only "Canada" in the western hemisphere), and without regard to the race, creed, color, age, physical ability, religious faith, choice of computer platform, or sexual preference of the wishee.

(By accepting this greeting, you are accepting these terms. This greeting is subject to clarification or withdrawal. It is freely transferable with no alteration to the original greeting. It implies no promise by the wisher to actually implement any of the wishes for her/himself or others, and is void where prohibited by law, and is revocable at the sole discretion of the wisher. This wish is warranted to perform as expected within the usual application of good tidings for a period of one year, or until the issuance of a subsequent holiday greeting, whichever comes first, and warranty is limited to replacement of this wish or issuance of a new wish at the sole discretion of the wisher.)

To heck with it, as far as I'm concerned, "**MERRY CHRISTMAS!!**" to all of you.....

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

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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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