



Tech Futures:
January 9, 2004

By [Michael Volker](#)

In his first column for 2004, Mike explains why he's so bullish on the tech sector in British Columbia and why he believes that it's one of the best places in the world to build your technology venture.

Bullish on BC!

I often get asked by my colleagues back East and in Silicon Valley about the outlook for the advanced technology industry in British Columbia. Although I've always been optimistic, there's good reason to be downright Pollyannish in the coming year.

Although the technology sector, especially in IT, has been in a slump for the past few years there are some good reasons for feeling upbeat. The public markets appear to be breaking out of the bearish trends we've experienced for the past three years.

In BC, the mood swung when Vancouver won the Olympics bid for 2010 in early July. Many of our tech leaders were involved in supporting this bid and the first-place finish undoubtedly infused a winning spirit in many local tech entrepreneurs. Most of the year's good news happened in the second half, following this milestone.

While the broader markets represented by the Dow, the S&P500, and the S&P/TSX all gained approximately 25% during the year, the Nasdaq – the technology bellwether - advanced a cool 50%. BC's T-Net20 index which tracks the top 20 public companies based in BC performed even better – up by 83% during 2003.

Although much of the broader market activity can be attributed to the boom in the resource sector, it ought to be noted that the Infotech sector was the second strongest performer in the TSX index groups.

Nationally, December was one of the strongest months in almost two years with respect to investors' capital flowing back into mutual funds - close to \$900 million versus a net withdrawal of funds just one year ago. This is a strong indicator in that cash is starting to flow back into the market.

Even though we didn't see much action on the IPO front, as soon as **Crystal Decisions** of Vancouver took the bold step of announcing one at US\$172 IPO, it was quickly bought out by **Business Objects** for US\$820 million at almost three times its annual revenue.

In October, **Honeywell** bought Surrey-based and publicly traded **Silent Witness Enterprises** for \$84 million. And, numerous smaller companies such as **ActiveState** and **WestBay Semiconductor** were also gobbled up by foreign acquirors who appreciated the local talent.

These buy-outs add to the growing pool of angel investors – entrepreneurs investing in, and mentoring, new start ups. Indeed, Vancouver's active angel network now numbers in the hundreds and is becoming a growing force in early stage financing.

It's not just buy-outs but also buy-ins that help build our industry. In this regard, Victoria's **Carmanah Technologies Corp.** (TSXV:CMH), a solar-powered LED lighting firm recently bought Calgary's **AVVA Technologies Inc.** in an all-share deal valued at some \$3.9 million. Vancouver's **SCS Solars Computing Systems Inc.** (TSXV:SCS) a small dot-com

era startup producing software for travel agents, announced that it bought Portland's **Accovia USA** for an undisclosed amount. And, **Creation Technologies** bought **Edper Industries** of Milwaukee for approximately US\$13.

The innovation climate in BC got a boost this past year from two very significant government reforms:

First, BC's **Small Business Venture Capital Act** was revamped last Spring to bolster capital formation – up to \$200 million - by providing a 30% refundable tax credit to investors and making the program more accessible to smaller investors. This created the formation of numerous VCCs – Venture Capital Corporations including a few publicly offered ones such as the **BC Discovery Fund** and the **BC Advantage Fund**. Each of these is attempting to raise up to \$10 million by February, 2004 but by year-end, they were well on their way to hitting that target. (Discovery was 80% of the way there and Advantage at 60% and that's pre-Christmas and pre-RRSP season when the action really starts!)

Second, the **BC Securities Commission's** goal of eliminating red tape and simplifying regulations resulted in companies being able to raise capital from arms-length investors by using new, less-onerous (i.e. less costly) exemptions from full-blown prospectus offerings.

Many of the changes were especially welcomed by the many junior public companies listed on the **TSX Venture Exchange**. This junior Exchange plays an under-rated role, in my humble opinion. Some of our leading tech companies (e.g. **QLT Inc.**, **Westport Innovations**) may not exist today had they not used this vehicle to access many investors as opposed to negotiating with a handful. Plus, it allows smaller investors to bet on tech companies without having to take huge positions.

Actually, there's a third piece of legislation that was supposed to be enacted in 2003 but is expected soon. That's the new **BC Corporations Act**. This replaces the Company Act and will be more like the Federal Act. It will make companies look a little more like American ones which is, I think, a good thing. For example, companies will no longer require unanimous consents from shareholders when selling shares to raise capital.

Whereas these initiatives helped in bringing more private investors to tech companies, traditional venture capital firms showed promise as well. **Ventures West** for example, raised \$53 million in its eighth Limited Partnership Fund. Newly formed **Yaletown Partners** closed a \$30 million limited partnership after tenaciously working this goal since the 2000 blowout. The November **IT Financing Forum** that was held in Vancouver attracted many Canadian and American investors.

Just a few days ago, I was asked to do a sales pitch to a U.S. firm contemplating a move to B.C. Here are a few points that I gave them:

The most important reason is the talent pool - being able to access skilled talent. In this regard, our universities and colleges have produced great talent in the past and are in the midst of a plan announced in the **Ministry of Education's** 2002/2003 service plan a few years ago of "doubling the opportunity" - i.e. the increasing output of computer science and engineering graduates. One only needs to stroll the **UBC** campus to see the aggressive construction and building expansion programs underway there. Similar construction is taking shape at **Simon Fraser University's UniverCity** on Burnaby mountain and a new **SFU Surrey** campus replaced the Technical University of British Columbia, with a strategy to double the number of student spaces there to 860 by 2005/06.

This plan also included the creation of the \$45-million **Leading Edge Endowment Fund**, a cost-sharing program to establish 20 BC Leadership Chairs in medical, social, environmental and technological research.

In last year's Federal budget, support for research and development increased by almost \$2 billion (nationally). BC's share of that was augmented by additional funding from the Province and from the private sector. Ambitious fundraising and development initiatives at our universities will ensure an on-going commitment to development our most precious natural resource.

At the beginning of each new year, newspapers always take a look back at the year that was and more often than not, they dwell on all the bad news stories of the year. This year, the **Vancouver Sun** took a refreshing approach when it highlighted some of the many positive global developments in science and technology. And, here at home in B.C. we've got countless unsung heroes in our research labs that we rarely hear about. Remember the **SARS** outbreak last year? Remember, too, it was a **UBC** research team led by **Dr. Marco Marra** of the **BC Cancer Agency** that was the first to break the genetic code for the virus - proof that BC scientists are among the best in the world. Remember, too, the some of our long-standing tech companies such as **MacDonald-Dettwiler** play a key role in **NASA's** space program. And, research in Criminology at SFU has helped police in tracking down serial criminals. From **Angiotech's** pharmaceutical compounds to **Tim Collings' V-Chip**, BC's shown that it can be a global leader - small wonder so many of our successes are snapped up by American firms.

A vibrant tech industry requires more than smart people. It also means intellectual property development, i.e. commercializing the investment in R&D and turning that into marketable products and services. This takes early stage, pre-venture capital, funding. In this respect, B.C. offers companies with one of the best R&D incentive programs - the **Scientific and Experimental Development Tax Credit** program (SRED) offered by **CCRA** (Canada Customs and Revenue Agency). The Province of B.C. complements the Federal contribution such that companies can get back - in cash in many cases - up to 68% of researchers' salaries plus a smaller percentage of non-salary expenses. This is not an exaggeration. Over \$2 billion annually is contributed by Canadian taxpayers to corporate labs. Although this is getting better known, there are still many companies that don't take full advantage of it and, of course, it's something that U.S. firms looking North have trouble understanding, eh?

So, let's say we've got smart people and some patents (B.C.'s universities generate more patents than their eastern counterparts) and other intellectual property. What else does it take to build successful companies? Correct - money! The toughest funding for companies is in the startup stages. Although there's no easy money, there is a growing interest and propensity by investors to take this kind of risk.

Angel networks in Vancouver (now numbering in the hundreds of been-there, done-that seasoned tech entrepreneurs - see www.vef.org and click on the angel links) are becoming mainstream and when coupled with some of the early stage funds supported under the VCC program, emerging technologies actually have a shot at getting some real risk capital.

A notable surge in financing activity was recorded in the fourth quarter. Numerous companies announced new financings. Biotechs were especially strong - **Stressgen Biotechnologies** announced the completion of a \$20 million placement and **Anormed Inc.** announced that it closed its offering of 6,000,000 Common shares for gross proceeds of \$29 million. And on the very last day of the year, **Response Biomedical** reported that a non-brokered private placement undertaken by the company was oversubscribed, raising gross proceeds of \$1,741,445.

The last piece of good news for 2003 was the launch of **Leading Edge BC**, a new agency funded by \$8.3 million by BC over a three year period to promote BC innovation and investment in BC technology. Leading Edge BC is led by the private sector, with the buy-in of many industry groups.

There's no doubt about it - there are many reasons to be bullish on the tech sector. BC is *the place* to build a technology venture.

Footnotes

In addition to the **BC Advantage Fund** mentioned earlier, there's a smaller boutique fund organized by yours truly, called the **Western Universities Technology Innovation Fund (WUTIF)**. **WUTIF** is a pooled fund that is managed by angels and co-invests with hands-on angels that work closely with their companies. This Fund may offer its investors not only exceptional returns by excellent tax incentives. For example, investors may get up to 74% of their investment back soon after they file their 2003 tax returns. It's like a mini-mutual

fund with a focus on BC tech companies. Check it out at www.wutif.ca.

Speaking of legislative changes, there's one that will affect most companies albeit many have not awakened yet to the implications thereof. Privacy Acts - two competing ones - Federal & Provincial both introduced on January 1st. It's not clear which one takes precedent. The **BC Personal Information Act** is broader than the Feds' in that it also applies to associations and non-profit orgs. In essence, the new law attempts to afford greater privacy to consumers. It will reduce unwanted solicitations by putting restrictions on the uses of customer lists, for example. The one I really like is that companies will no longer be allowed to send spam email (hurray!). The only problem with this is that much of the spam I get comes from the USA. Employees will also be granted access to their personal records and employers will have to be more protective of employee data.

VEF UPDATE

This month's [Vancouver Enterprise Forum](#) event - on Tuesday, January 27th will focus on launching new products and building revenue. Some local companies will be featured and will **Certicom Corp** from Ontario - with **Scott Vanstone** of Certicom making a special guest appearance. He'll be talking about how this technology has been sold around the globe. The co-sponsor for this event is the **University of Waterloo**.

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

SFU's TIME Centre

If you're an entrepreneur looking for a place to get your company started; there's some great space available at Harbour Centre downtown. **SFU's TIME Centre** provides 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 "Business Centre" (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.

Michael Volker, a technology entrepreneur, is Director of the University/Industry [Liaison Office](#) at Simon Fraser University, past Chair of the B.C. Advanced Systems Institute, Chair of the [Vancouver Angel Network](#) and past Chair of the [Vancouver Enterprise Forum](#). He owns shares in many of the companies he writes about. Copyright, 2004.

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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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