Going Public:
Is it right for your company?

Acetech CEO War Stories
Vancouver Enterprise Forum
November 28, 2006

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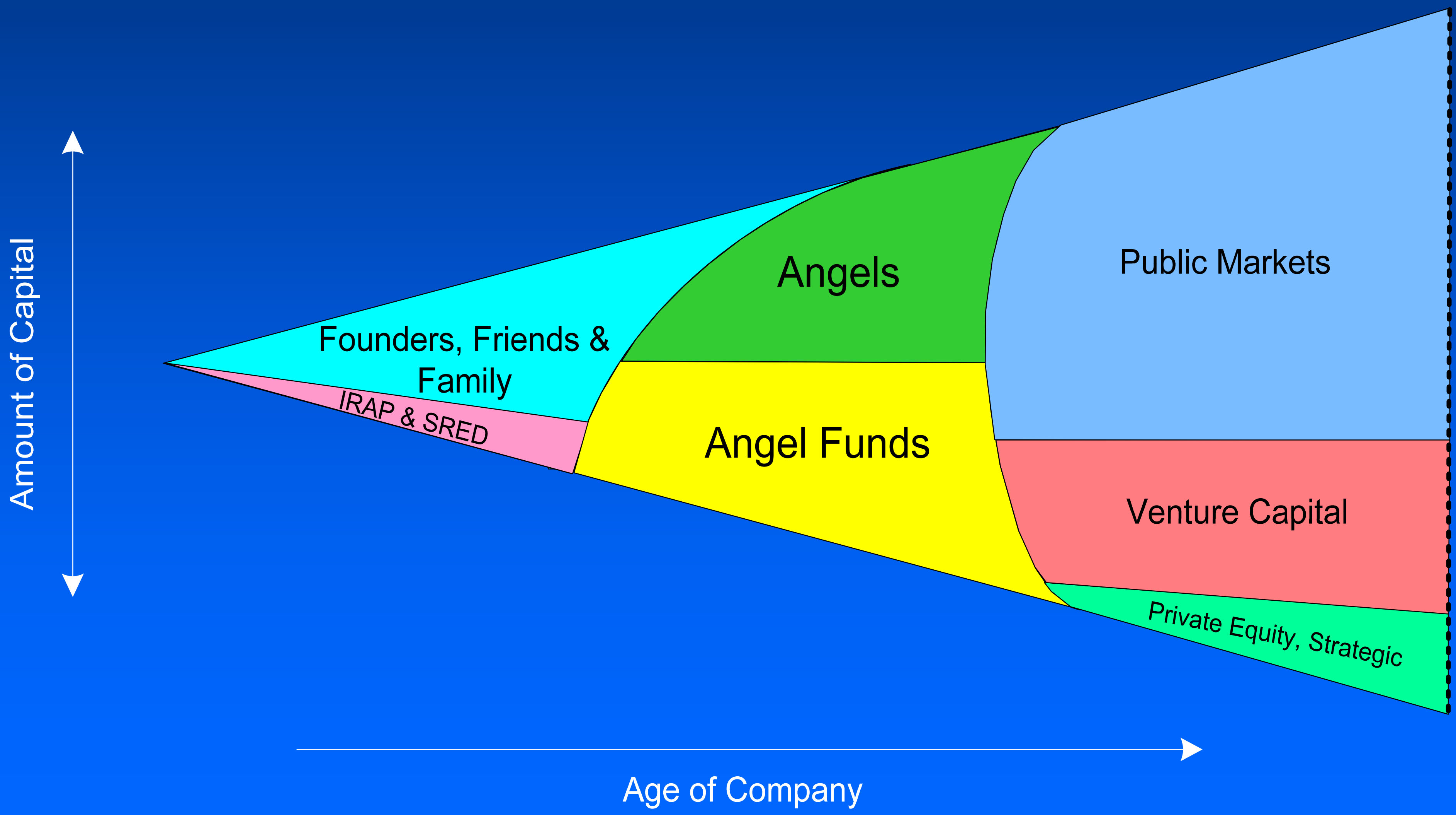
My Goals Today

- Provide you with ‘take home value’
- By developing a series of simple tests
- That you can apply to any company
- To determine whether raising capital in the public markets is likely to be successful.

- Disclaimer: these observations are entirely my own based on personal experiences and discussions with hundreds of smart guys who have ‘been there and done this’.

Sources of Capital

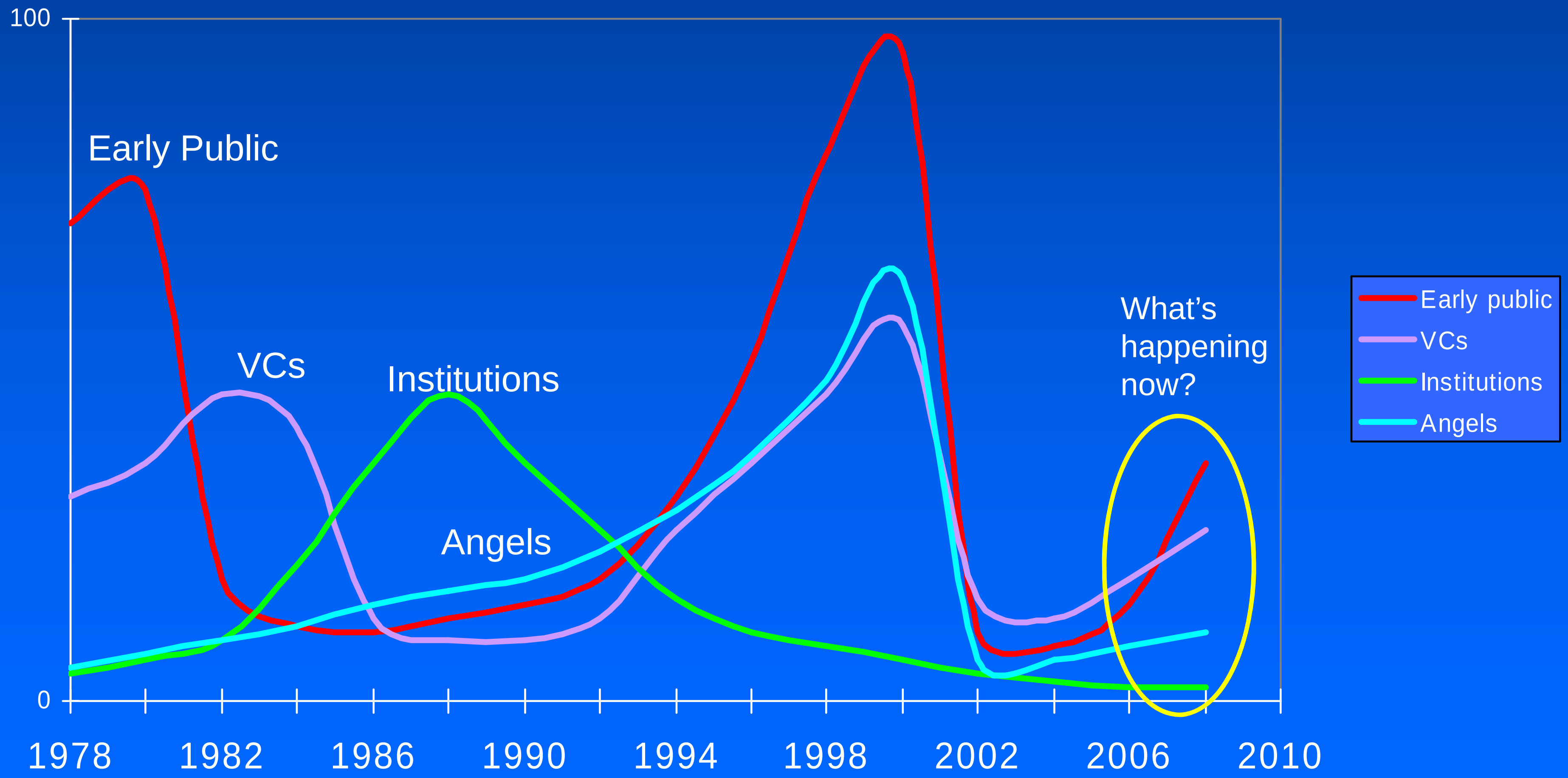


Trends In Financing

- Optimum financing strategies for companies have to evolve,
- Because the financial industry changes.
- Long cycles take about a decade.
- Short cycles take only weeks.

Relative Equity Availability for Early Canadian Tech Co's

Extremely simplified. For illustrative purposes only. All future predictions highly suspect.



What’s happening now

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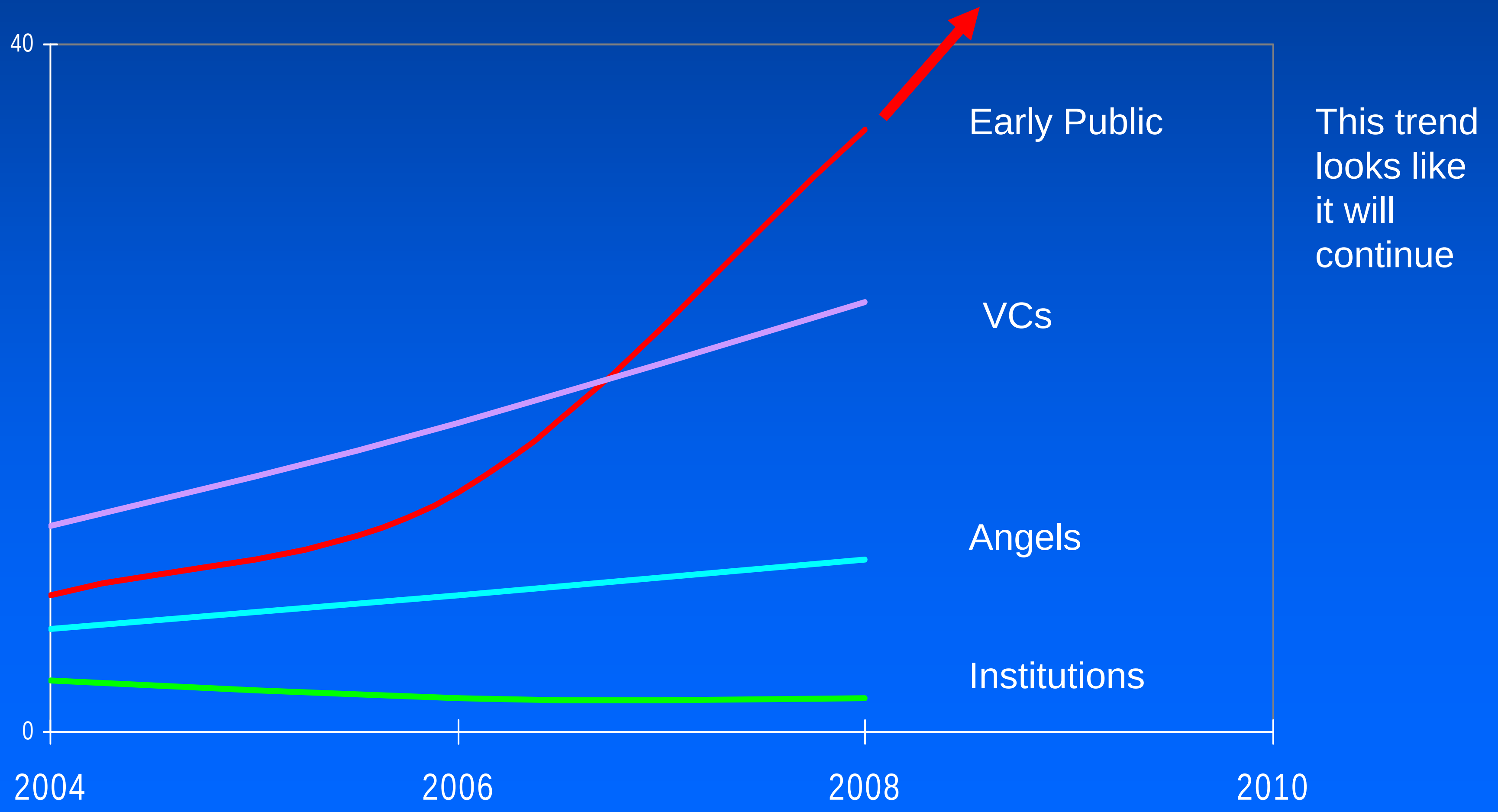


After the Angels: VCs or Public?

- Angels can provide $1 or 2 million.
- In the US, it’s still ‘standard practice’ to do a VC round after the Angel round.
- There aren’t any good early-stage public markets in the US.
- But in Canada, the financial industry has evolved quite differently,
- Partly due to our history in resource exploration.
- Canadian entrepreneurs have an alternative to traditional venture capital.

VC vs Early Public Financings

	VC	**Early Public**
Invests in	Preferred Shares	Common Shares
Complexity of investment agreement	Extreme	None
Non-monetary contribution	Varies	None
Board representation	Usually	Elected by the shareholders
Degree of control	Considerable	None
Alignment to employees	Medium	High
If unhappy after	Change the CEO	<u>Sell the stock</u>

Additional Costs of Being Public

- Most people ask how much it costs to '<u>go</u> public'
- That is not really the question.
- The more important question is "How much does it cost to <u>be</u> public?"
- After your company goes public and you've raised the capital you need,
- To maintain a healthy after market, the company has to <u>build a team to continue to sell shares every day</u>.

Public Co's Sell Stock Every Day

- Micro-cap stocks are '<u>sold' not 'bought</u>'
- No, the market will not 'take care of itself'
- To maintain the stock price of your public, micro-cap company,
- The company has to find new buyers for every share offered for sale every day.
- Assuming a healthy market, this might be 25,000 to 100,000 shares per day.

Which Costs a Lot

- To sell that much stock every day requires:
- An investor relations program that will probably cost $250k to $1 million per year,
- And require up to half of the CEO's time.
- I have never seen a micro-cap tech company spend less than this and succeed over the long term. (If you find one, please let me know.)
- In addition, the company will have compliance costs of $200,000 to $500,000 per year.

Some reasons to go public early

- VCs won’t finance – i.e. service businesses
- Better valuations for your type of company
- Cleaner structures
- Better alignment
- Want shares to do acquisitions
- Note: this is not a practical way for founders and employees to get liquidity.

Companies are going public earlier

- ..”companies are going public earlier in their market development life cycle to capitalize on first-mover advantage, using the huge inflow of capital to accelerate the build-out of an infrastructure or a brand”

Geoffrey Moore, Chairman of The Chasm Group

and author of Crossing the Chasm

How to test your company's suitability

- The following tests are universally applicable to all technology companies considering whether to 'go public'
- Some of the factors can be modified and improved
- But others are inherent to the business and cannot be changed
- The only hard part is being honest with yourself

Test #1 – ‘The Story’

- Public market investors and brokers have very short attention spans.
- To get them interested in investing,
- You have to be able to <u>explain your business in 15 to 20 seconds</u>
- And they have to understand it
- And like it
- This is probably not something you can fix

Test #2 – News Flow

- To keep public market investors interested,
- So they won’t sell your stock, and
- To get new investors interested in buying
- Your business has to be growing fast enough
- <u>To generate 2 to 4 news items each month</u>
- And they have to be substantial.
- Probably an inherent characteristic of the business and therefore not fixable.

Test #3 – Capital Requirements

- To have a reasonable chance of succeeding as a public micro-cap company:
- Your business should need a minimum of several million dollars over the next few years.
- This is necessary to keep the brokers interested,
- And to make the costs of being public a reasonable percentage of capital raised.
- Not really fixable – unless you change the strategy to include acquisitions.

Test #4 – The CEO

- The CEO must be able to effectively ‘tell the story’ and make investors want to buy the stock
- Some of this can be learned with a good coach
- But the CEO has to be a ‘sales personality’
- Previous public market experience is desirable, but if its not there, the board must be very experienced
- If the CEO is not a fit, this can be fixed by recruiting a new CEO – <u>prior to the IPO.</u>

Test #5 – The Board

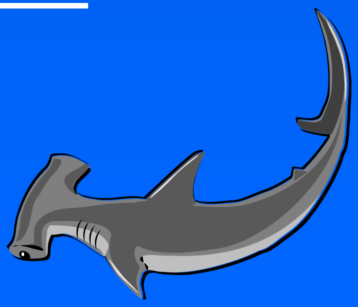
- All public companies must have boards with considerable public market experience
- Even if the CEO is experienced
- This will be even more important in 2007 as the new rules come into effect
- Compensation for public directors has increased several hundred percent in the past few years
- This is also fixable by recruiting.

Testing your company

- Five parts to the test:
  1. The Story
  2. News flow
  3. Capital requirements
  4. The CEO
  5. The Board
- All of these are required.
- If you run your company through the test and the answer is still not clear – you can call me.
- It only takes 5 minutes to test any company.

Check out the people

- There are lots of entrepreneurs with excellent VC and public market experiences.
- But there are many more with absolute horror stories.
- The difference often depends only on the people.
- <u>Investigate the financiers reputations!</u>



VCs or Early Public ?

- Many successful companies have gone both routes.
- But many companies have failed because the board made the wrong choice.
- Find good mentors and directors.
- Do lots of research.

For More Information

- This presentation is available at:
  www.basilpeters.com/Speaking_Engagements.html
- For more on financing strategy, boards and best practices:
  www.AngelBlog.net
- Also great resources at:
- www.eVenturing.org
- www.tsx.com/en/interested.html

Good Luck!