

Going Public: Is it right for your company?

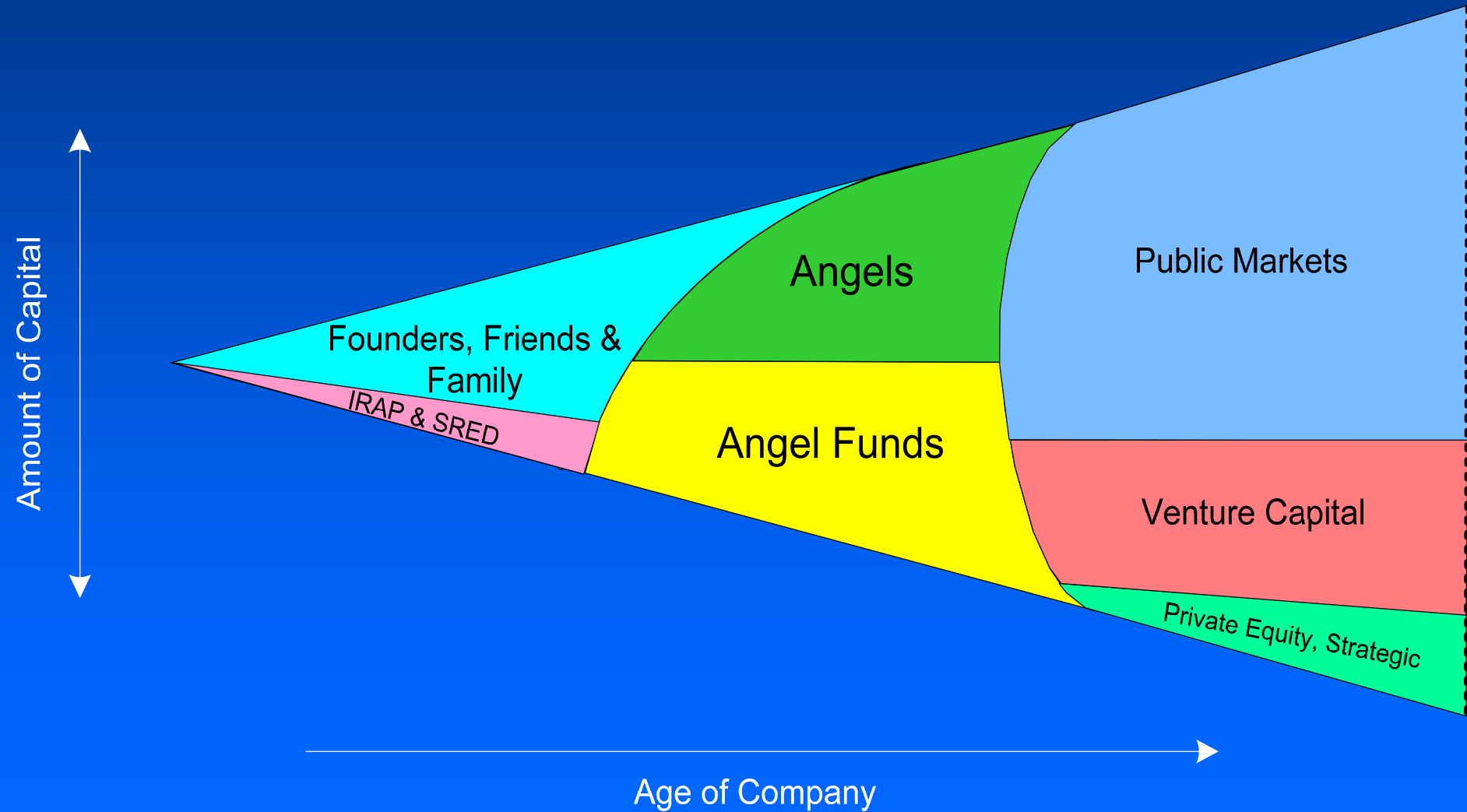
Acetech CEO War Stories
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By Basil Peters

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

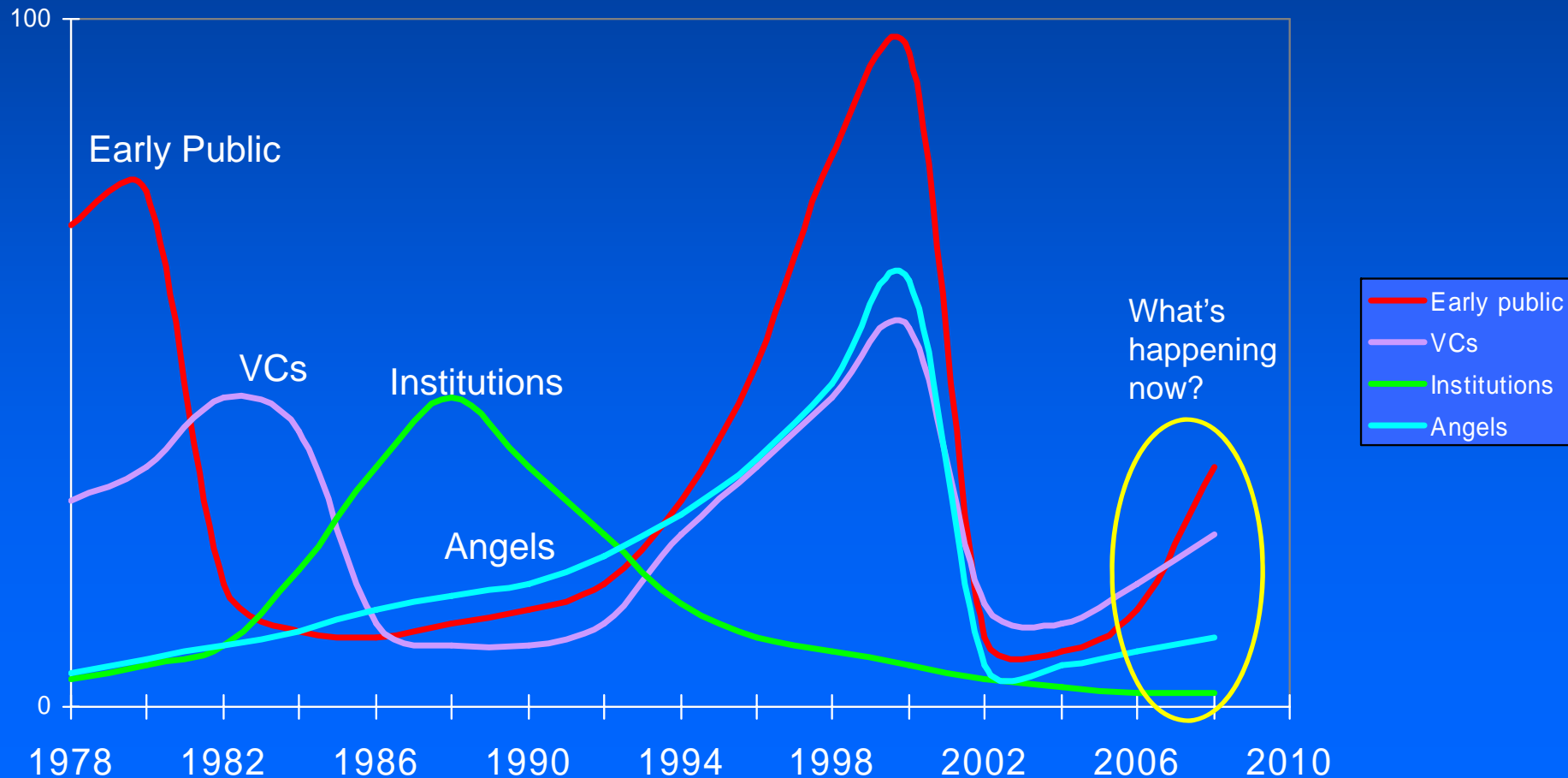


Trends In Financing

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

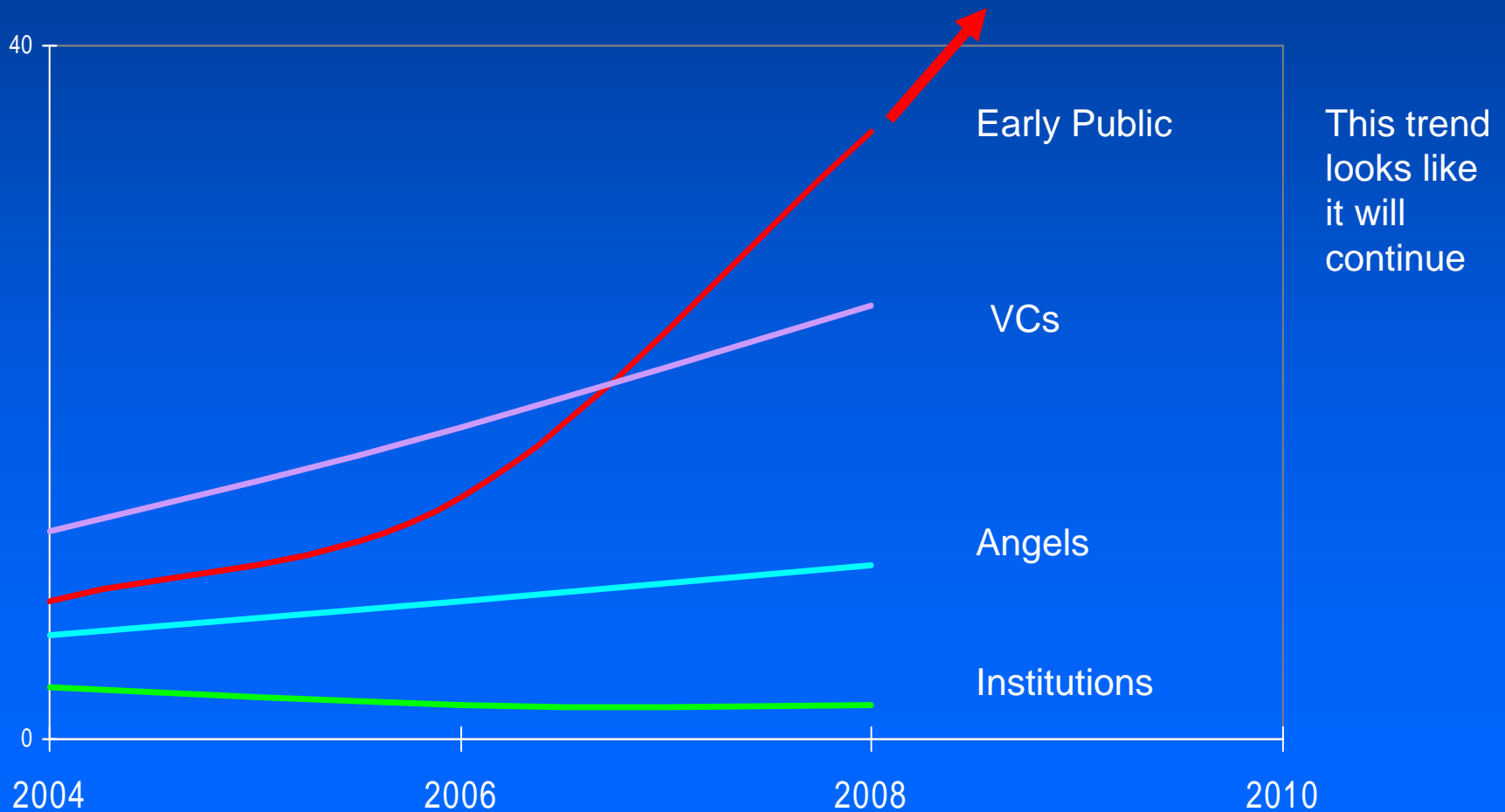
Relative Equity Availability for Early Canadian Tech Co's

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



What's happening now

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



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 'go public'
- That is not really the question.
- The more important question is “How much does it cost to be public?”
- After your company goes public and you've raised the capital you need,
- To maintain a healthy after market, the company has to build a team to continue to sell shares every day.

Public Co's Sell Stock Every Day

- Micro-cap stocks are 'sold' not 'bought'
- 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 explain your business in 15 to 20 seconds
- 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
- To generate 2 to 4 news items each month
- 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 – prior to the IPO.

Test #5 – The Board

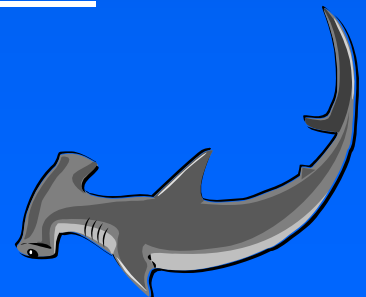
- All public companies must have boards with considerable public market experience
- Even if the CEO is experienced
- This will be even more important in 2007 as the new rules come into effect
- Compensation for public directors has increased several hundred percent in the past few years
- This is also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



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!