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Jason assists issuers, investment dealers and institutional and private investors on complex equity and debt financing transactions ranging from start-up investments, government grants, venture capital and private equity investments, through to larger public offerings.

The IPO Window is Open for Tech Companies on the TSX

by Jason A. Saltzman

As the economy is recovering and the capital markets are stabilizing, the IPO window in Canada is open for technology companies. At the time of writing, there are several large technology deals in the pipeline. Once these larger transactions are completed, it is expected that there will be demand for small- and mid-cap growth-oriented technology companies. We are currently working with several such companies to get them “market ready.”

Technology companies with less than \$500 million market capitalization that are looking to raise capital or to gain liquidity should consider an IPO in Canada and a listing on the Toronto Stock Exchange (TSX).

The TSX is a great place for small- and mid-cap companies. It is the eighth-largest stock exchange in the world, with a market cap of \$1.807 trillion and a history going back more than 158 years. The TSX is an extremely deep capital market, and one of the best places to raise public equity capital. Approximately \$60 billion of public equity was raised on the senior exchange in 2009 on the TSX.

The TSX is the second-largest exchange in the world (after the NASDAQ) for the number of listings of technology companies. The value of the technology sector on the TSX is approximately \$62.57 billion. Approximately

90 per cent of TSX technology companies have less than a \$500 million market cap. Canadian investors understand the small-cap technology sector and are arguably second only to U.S. investors in their level of sophistication. The following are some additional benefits of listing on the TSX.

Lower Barriers to Entry:

As far as getting listed, there are much lower barriers to entry on the TSX. In contrast to the NASDAQ, which has a high market capitalization requirement, a listing on the junior exchange (TSX Venture) can be accomplished by early-stage companies with as little as \$500,000 in net tangible assets. For listings on the senior exchange, the figure increases to \$10 million.

Liquidity:

The TSX provides a liquid and well-regulated secondary market. In addition, Canadian investors are less likely to sell a stock when there is an inevitable downturn in performance or on other market trends. This contrasts greatly with the United States, where many stocks are orphaned, and can be driven to micro-cap status on a temporary downturn.

Increased Research Coverage:

Adding to the liquidity, research coverage is more plentiful for small-cap technology companies in Canada. In Canada, a technology

company with \$50 million to \$100 million in market cap has, on average, three research analysts covering its stock. This often increases to four analysts if the company's market cap is \$100 million to \$250 million, and to nine or ten analysts if the company's market cap is \$250 million to \$500 million. This compares very well to companies of the same size listed on the NASDAQ.

Balanced Regulation:

The Canadian capital markets are considered to have one of the most comprehensive regulatory regimes in the world. The difference between the Canadian and U.S. regime is that Canada has recognized that well-conceived and principled regulatory requirements respecting the different stages of its listed companies, while still providing maximum protection to investors, are in the best interests of all parties.

Canada has struck a much more appropriate balance between investor protection and the appropriate cost associated with it than the United States or United Kingdom. The cost and complexity of complying with Sarbanes Oxley (SOX) effectively prices the NASDAQ out of the market for small-cap companies.

Lower Costs:

The costs of going public are generally much lower in Canada than in the United States or the United Kingdom, driven by lower legal fees, accounting fees, listing fees and other costs. It is also faster and easier to go public in Canada, because of the simplified legal and regulatory framework. Further, the ongoing cost of being public is also proportionally lower, for the same reasons.

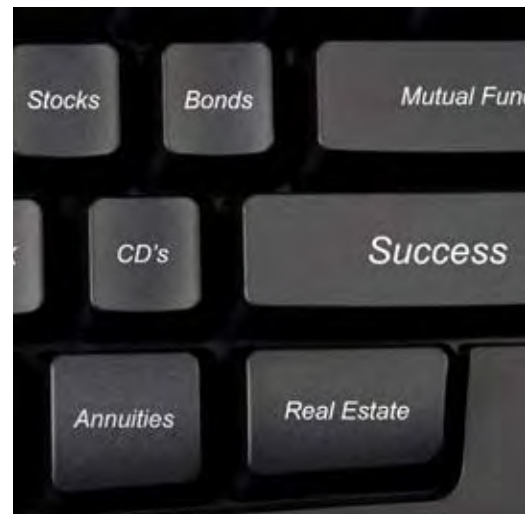
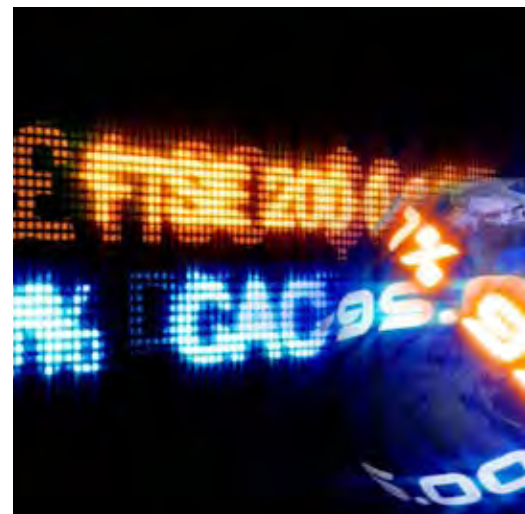
Access to U.S. and European Capital:

Being listed on the TSX allows issuers to attract U.S. institutional investors simply and cost-effectively, without having to comply with the requirements of SOX. It also allows issuers to simply and cost-effectively attract European institutional investors. Many U.S. and European institutions are heavily invested in tech companies listed in Canada. In essence, being listed in Canada is the best of both worlds: virtually all of the benefits of a NASDAQ listing, without the costs.

Graduation to U.S. Exchanges:

There is a long tradition of great TSX-listed companies graduating to listings on the NASDAQ or NYSE when they are ready.

In sum, a public offering in Canada and a TSX listing is a logical step for emerging technology companies looking to take their business to the next level and access the vast North American capital market. Now, while the window is open, is the time to seriously consider whether an IPO is right for your company and, if so, to begin getting ready for market.



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