

It came from the West

Capital pool concept is gaining market traction

By **JAMES SBROLLA**
and **PETER MERRICK**

Raising capital has long been a challenge for growing businesses, but this has been particularly true in recent years.

The tough market has been compounded by currency and interest rate fluctuations that have made lenders reluctant to take big new positions in this turbulent environment.

In addition to many traditional ways to access capital for growth, there is a comparatively new method that is gaining popularity called the capital pool company program. New regulations have paved the way for this vehicle to be attractive for Canadian industry.

The concept originated in Western Canada where junior capital pools were used to finance oil and gas exploration. These vehicles were designed to offer an alternative to businesses that didn't want the drama and large costs of a traditional IPO.

A CPC is a blind pool listed on public exchange that has capital and seasoned management but no operating business. Its primary objective is to identify and acquire an early stage business moving to public company status. Revisions to the p have been approved to increase the amount of capital that can be invested to \$2 million and to streamline the shareholder approval process.

Pools are for those who don't want the costs of an IPO.

The CPC program is available to emerging companies at a time when a traditional IPO would not be suitable. The IPO route can cost upwards of \$1 million in fees and administrative costs alone. Unless a company is raising \$5 million to \$10 million, the fixed cost burden can be prohibitive. The CPC route has capped commissions and legal and accounting fees so that they are not overwhelming.

There are many companies that could make great use of \$500,000 to \$2 million in growth capital.

Each must meet the minimum listing requirements for the exchange.

These requirements vary depending on the industry and seniority of listing. The requirements for the most senior industrial issuer require adequate working capital for 12 months, \$50,000 of pre-tax earnings in the last year or in two of the last three years, and \$500,000 of net tangible assets.

The CPC program is a multi-step process. The mechanics work like this:

- Founders set up a new company and invest a minimum of \$100,000 to establish a pool;
- An investment firm is engaged to find at least 300 investors who subscribe to the pool;
- The pool is now between \$250,000 and \$2 million and ready to acquire an operating business;
- The founders identify a target company that is acquired by the pool resulting in public status. The operating business now has the capital to grow and to meet reporting requirements for a public listing.



SBROLLA

MERRICK

There are numerous benefits to being a public company. The

status offers entrepreneurs capital, visibility an exit strategy and a means of employee and management participation.

It also means public shares can be used as currency for acquisitions—and it gives the outside world (including people in the sector) the opportunity to share in the firm's growth.

There are also drawbacks to being a public company. There are costs for maintaining the public listing; it can be a distraction for many watching the share price fluctuate.

And public status opens finan-

cial information of the company to the outside world.

Given these benefits and drawbacks, the CPC option is one that growing companies should consider as part of their long-term strategic planning.

James Sbrolla is principal of Growth Equity Partners and can be reached at: (416) 234-5120 or at: growthequity@rogers.com.

Peter Merrick is president of Merrick Wealth Management and can be reached at: (416) 854-1776 or at: peter@merrickwealth.com.



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