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How to go public cheaper and faster

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Brett Gundlock/National Post

While the initial public offering market has dried up, don't tell that to Penny Green, a securities lawyer at Bacchus in Vancouver. She has six IPOs in the pipeline -- just not for the Canadian big board -- the TSX -- or even the TSX Venture Exchange. Rather, Ms. Green's focus is the Canadian National Stock Exchange, or CNSX, which is providing small and mid-sized companies with an alternative to going public than the traditional exchanges.

"People are suddenly aware there's a full exchange out there that's an alternative to the TSX Venture," she says. "In these economic times, people are looking for ways to save money and it makes a huge difference if you list on the CNSX. It's faster and less expensive. Also, there's greater certainty you'll actually complete your listing. They're much easier to work with and give conditional approvals earlier."

The CNSX, formerly the Canadian Trading and Quotation System Inc., bills itself as "an innovative new stock exchange for trading the equity securities of emerging companies."

According to PriceWaterhouseCoopers, there were 57 IPOs in Canada last year; The Venture Exchange accounted for 38 listings and the TSX, 10, while the AIM in London and the CNSX, accounted for the other nine, or about 15% of market activity in Canada.

The CNSX, established in 2003, now has 109 listings -- a far cry from its competitors. Last November, the exchange relaunched using a new trading platform, amended its fee schedule for trading stocks and hired more staff. It now has more than 80 dealers providing liquidity to the market, including Canada's top brokerage firms, and its board of directors includes market luminaries such as John MacNaughton, founding president of the Canada Pension Plan Investment Board, who chairs the Business Development Bank of Canada, and Gordon Cheesbrough, former chief executive of Altamira Investment Services Inc. who runs Blair Franklin Capital Partners.

Ian Bandeen, CNSX chief executive, says the changes are paying off, both in terms of fresh listings, and in companies switching from bigger exchanges. In April, for example, gold miner Chai Cha Na Mining Inc. began trading on the CNSX, while Cancor Mining Inc. switched from the TSX and West Isle Energy Inc. moved over from the TSXV.

The CNSX's 109 listings range across more than 15 industry groups, from oil and gas, to technology, gold and industrial products. Also, the Province of Manitoba floated several bonds on the exchange.

And it has been a success for companies. Thunderbird Resorts, Inc., which builds hospitality properties in Central and South America, Asia, India and East Europe has raised more than $80-million since going public and last month, Micromem Technologies Inc., which is developing Magnetoresistive Random Access Memory and magnetic sensor technologies, raised $150,000 in a private placement of common shares.

Andrew Grossman, a lawyer at Ogilvy Renault, says going public is not the goal of every business owner. But in today's markets, it's "challenging" to get bank financing" and "it can be expensive," he noted. Private placements can also be difficult to complete.

The "streamlined" approach of the CNSX provides companies with another option, he says. They can raise "as little as a couple of hundred thousand up to several millions.

"Existing fees are incredibly low compared to the TSX," making it attractive to small-and mid-sized companies that want to test the public markets, Mr. Grossman says.

A "plain vanilla" listing on the CNSX can run $150,000 compared with $1-million or more on the AIM, Mr. Bandeen says. He estimates a similar listing on the TSX would range from $500,000 to $1-million, while the venture exchange would cost $250,000 to $600,000.

The key to low costs is the market's simplified filing processes. Its rule book, a mere 75 pages, is posted online and is "straight forward, simple English," he says. For other markets, a listing company requires a "phalanx of lawyers" to negotiate it. The market is based on continuous disclosure and the Web site provides investors with updates about the companies.

Mr. Bandeen says the CNSX worked closely with the Ontario Securities Commission when drafting its rules and eliminated a lot of the legacy issues that had built up in the markets. "The single biggest benefit is we were able to start with a clean slate and were able to write rules designed for today. It allows us to offer a much more cost-effective and streamlined value proposition."

Ms. Green likes that there's no requirement for a company to be sponsored by a broker-dealer to list: A restriction in other markets she calls a "tax with very little value."

John Conway, a lawyer at Lang Michener in Toronto, says the CNSX is good when a company "wants to start to run with the big dogs. When you have a long-term target of wanting to go public but are not ready to meet the listing requirements of the other two exchanges. It allows you to put your toe in the water."

It is also an exit strategy, it makes it easier for company founders to sell shares, he says.

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