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Where few dare to tread: IPOs daunting for many Canadian businesses

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Market conditions have cast a lot of worrisome outlooks for Canadian IPOs this year. The first quarter of 2012 was one of the weakest on record for companies in this country looking to raise capital on exchanges. A report last month from PricewaterhouseCoopers said that weakness has left the Canadian IPO market "struggling for traction."

31 Number of listings (including non-IPOs) on Canadian stock exchanges in the past six months, according to FP Datagroup

27 The number of listings in the resources sector

4 The number of listings in the non-resources sector

In a year that has seen a slump in Canadian businesses going public, Avigilon Corp. is among a handful of companies bucking the trend.

The Vancouver-based technology firm makes digital video cameras capable of capturing incredibly detailed images, making it ideal for tasks such as facial recognition. Avigilon launched its initial public offering last November, raising about $25-million in the process.

It is the only company on the Toronto Stock Exchange to make an initial public offering in the previous two quarters, based on data from PricewaterhouseCoopers.

Smaller exchanges, such as the TSX Venture Exchange, see more activity, but most of that comes from junior mining and oil and gas operations. Such firms tend to be high risk operations that rely on capital markets for funding.

Brad Cherniak, a partner at Sapient Capital Partners, said that many factors in the past few years have pushed Canadian businesses away from listing publicly. Global economic uncertainty has certainly played a part, given the volatility that crises such as the turmoil in Europe have produced in the stock market.

But the realities behind going public have also changed in the past decade. Companies today take longer to prepare to go public, given the overwhelming amount of regulatory and shareholder scrutiny they face when listing on a stock exchange, he said.

"There's a bigger and bigger requirement to disclose your strategy, basically disclose everything today," Mr. Cherniak said.

"Companies are under severe pressure to be transparent, which is not necessarily a bad thing, but you have to tell the public to a greater degree than in the past what you're doing, what your vision is. All those things."

Changing trends in how growing businesses raise funds have also factored in to the IPO market, he said. For example, many startups today will look to selling their business to a larger competitor instead of listing, given the large sums many big tech firms have paid for quick growing startups in the past few years.

"It's almost become a game of giants," Mr. Cherniak said.

Private equity funds have also moved into acquiring smaller companies, given a slowdown in the number of corporate mega-deals in the past few years. That has made them very active acquirers of companies that in the past would have been golden candidates for an initial public offering, Mr. Cherniak said.

But while there may seem to be a dearth of non-resource companies listing in Canada, Bill Demers, partner at Ernst & Young and the firm's Canadian IPO leader, said the IPO market functions very much in cycles. Given the economic uncertainty prevailing in global stock markets, that has led to some companies delaying their decision.

"When you look at it, there are a lot of companies waiting to go public, but they are waiting for the right time," he said,

Robert Deluce, chief executive of Porter Airlines Inc., for example, has cited poor market conditions as the main reason the upstart airline has not made an initial public offering yet.

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Tom Kloet, chief executive of TMX Group Inc., said the "pipeline" for listings looks good domestically and internationally. A slowdown in the first quarter was due to "macro-economic facts," and does not reflect growing demand for capital at large and small companies or the amount of capital available to invest, he added.

But while IPOs may be sluggish now, Lawrence Wilder, partner and corporate securities lawyer with Cassels Brock & Blackwell LLP, said it is important to remember that Canada still offers smaller companies a conducive environment to raising money in the capital markets.

The Toronto Stock Exchange and the TSX Venture Exchange maintain lower capital requirements to list than do those outside of Canada, allowing smaller firms to raise money more easily. That means an abundance of smaller cap firms here, and as well, investors who are more receptive to buying into such companies.

Ben Nelms/Financial Post files

For Avigilon president and CEO Alexander Fernandes, going public was a huge success, increasing revenue by 77%.

“Contrast that to a place like the United States, where markets tend to only look at you and give you attention when you’re north of $500-million – sometimes even more than that,” he said.

For Avigilon, going public has been a huge success. The company raised $5-million for its investors by listing, and pulled in a further $20-million to help with product development and expanding into new markets.

Avigilon’s target markets include Eastern Europe, where it recently opened a branch in Russia. Sales offices have also been established in Dubai, Mexico City and Johannesburg.

Since going public, sales have continued to grow at a phenomenal pace. In its most recent quarterly report, Avigilon posted revenue of $17.8million, a 77% increase from a year earlier.

“I think it’s a testament to the fact that no matter how bad things get in the markets, there’s always an appetite for fast-growing companies with good opportunities,” said Alexander Fernandes, president and chief executive of Avigilon.