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Take AIM over Nasdaq, Matthews recommends

Small London exchange has huge pool of capital, less onerous regulation

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Small Canadian companies that want to break into the world markets should forget about the Nasdaq, technology magnate Terence Matthews said yesterday.

The real action, he said, is in London, where a combination of attractive tax incentives, Middle East oil riches and concern about U.S. foreign policy is creating a huge new pool of capital for small technology companies. By comparison, he said, U.S. business scandals have created excessive regulation and gun-shy investors, which make the U.S. stock exchanges a much less attractive alternative.

Mr. Matthews' speech to an Ottawa Centre for Research and Innovation breakfast yesterday was a classic exuberant performance by the high-energy founder of Newbridge Networks and many other companies. Barnyard epithets mingled with the aroma scrambled eggs at the Corel Centre. If anyone was offended, they didn't say a word as Ottawa's only billionaire put on a show.

Hopes of the technology sector are being fertilized by successful public launches of new Matthews companies, healthy growth of technology jobs and new venture capital that will soon pass the paltry $240 million raised during all of last year.

Mr. Matthews said Canadian governments should pay attention to the tax incentives Britain has created for the Alternative Investment Market, a junior version of the London Stock Exchange. "If you invest and hold the shares for three years, there is no tax on the gain. That's a special little upside that I like, and I'm not the only one."

Mr. Matthews has a significant stake in three companies _ March Networks, Newport Networks and Ubiquity Software -- which have raised $170 million on AIM in the past 12 months. Of these companies, only March also launched in North America, on the Toronto Stock Exchange.

He said British airports are filled with private jets bringing in oil profits from the Middle East. "More cash is pouring into Britain than you could ever imagine," he said.

By comparison, small companies needing capital in North America face some predatory venture capital and equity funds "that grind down the original investors to rat s--t."

He called the U.S. Sarbanes-Oxley Act "bulls--t" and the "dumbest thing imaginable." The regulations require executives of public companies to certify the honesty of their books. Many companies are investing heavily in new financial reporting systems and delaying results to double-check the numbers. Mr. Matthews said the regulations are creating a huge business for lawyers and auditors but do nothing to stop dishonest companies from filing bogus reports.

Mitel Networks, another Matthews company, might be of interest to Nortel Networks in strengthening Internet-based corporate phone network offerings. Mitel was widely expected to be the first of the new generation of Matthews companies to go public. But it is locked in market battle with Cisco Systems and such traditional players as Avaya, Nortel and Alcatel. Mitel recently raised new financing, rather than try a public offering of stock.

Mr. Matthews said the Mitel name carries no sentimental value to him and he would consider any offers. But he said his basic strategy is still to nurture new companies into strong enterprises that can go public.

Ubiquity Software, which went public this week, is now trading at 16 per cent above the British issue price. Newport, the first to go public last spring, has plunged 37 per cent the the past month in a technology market correction, but it is still about 50 per cent above the original issue price.

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