CPC 2.0: Incubating the Next TSX Venture 50 Winners

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Every year, TSX Venture Exchange (TSXV) recognizes the best 50 performing issuers across five sectors (Venture 50™). The Venture 50 winners are selected by assigning equal weight to share price appreciation, trading volume, and market capitalization growth. The companies on this year's Venture 50 have demonstrated their ability to access capital for growth and scale up their business for success…all during a pandemic.

The S&P 500®, a market-weighted group of large cap stocks in the US, finished the year with a gain of 16.26% and six stocks rising more than 100%. In comparison, 43 of the Venture 50 winners (86%) had share price gains of more than 100%. In addition, the average share price appreciation of Venture 50 winners was 406% while market capitalization of the entire group rose by 709% in 2020.

Since 2019, 25 issuers on Toronto Stock Exchange (TSX) have been alumni of Venture 50, positioning TSXV as an incubator of top performing public companies. It lies at the heart of a unique capital market ecosystem, allowing early-stage ventures to gain access to capital and engage analysts and investors. This helps build interest in their company's growth story, supporting their maturity as a public company as they graduate to the senior exchange, TSX.

Supporting Entrepreneurs Through Public Venture Capital

There's a common misconception that becoming a public company can be a difficult process or that it's not intended for companies in early stages of their growth. However, this is exactly why TSXV was created – to give entrepreneurs with a commercial idea an opportunity to raise capital and grow their company.

One way to do that is through the Capital Pool Company® (CPC™) Program, a unique financing vehicle offered exclusively by TSXV. A two-step introduction to capital markets, the CPC Program provides an alternative and streamlined path for private companies to go public in Canada.

In the last 10 years, the CPC Program has accounted for almost 50% of new listings on TSXV and in some cases those issuers have had solid performances. The 2020 TSX30™, a ranking of the top 30 performing stocks on TSX, included 18 graduates of TSXV; eight of them started their public company journey as a CPC. It should also be noted that approximately 25% of all Venture 50 winners began as CPCs; this year alone that number has risen to 36% with 18 out of the 50 winners in 2021 starting as CPCs.

How the CPC Program Works

The program makes it possible for a shell company with only cash assets and no commercial operations to list on TSXV in order to raise a pool of capital. The capital raised is then used to identify a private operating company to complete a reverse takeover or Qualifying Transaction with the CPC.

The resulting issuer's shares are then listed on TSXV. The advantages of this method are two-fold: it provides flexibility for public venture capital financiers and makes it easier for early-stage ventures to raise more money.

Since its inception in 1986, there have been over 2,600 CPCs created and more than 2,200 qualifying transactions completed. Former CPCs have raised over $75 billion in equity capital on TSX and TSXV.

Recent Changes to CPC Program

In response to broader shifts in Canadian capital markets, we announced changes to the CPC Program starting January 1, 2021. These changes provide benefits to CPC founders, who are often serial capital creators, to play an important role in bringing early-stage companies to market. This has the benefit of creating opportunities for the Canadian retail investor looking to be an early adopter and to net solid returns as these companies grow and scale over time.

Recent changes to the CPC program include:

- Increased flexibility ─ new jurisdictions added, residency restrictions eased, spending restrictions simplified.
- Reduced regulatory burden ─ relaxed requirements on shareholder distribution and shareholder approval, fewer restrictions on PRO subscriptions.
- Improved economics ─ increased seed investment, relaxed requirements on finders' fees, shorter escrow.

The decline of boutique investment banks in Canada has created a void for early-stage companies looking to access public venture capital equity. The inherent flexibility of being a CPC in order to raise funds makes it a smart choice for entrepreneurs seeking access to growth capital. The success of CPCs in Venture 50 and TSX30 rankings is yet one more proof point that going public via the CPC route is worth the effort in the long run.

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