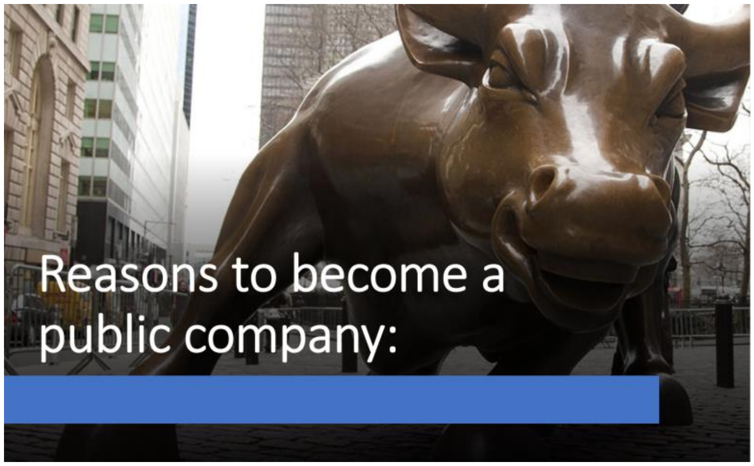
Aside from issues of valuation and the feasibility of raising expansion capital, there are other key considerations you need to be aware of in deciding whether to pursue a financing in the public market *(e.g. stock exchanges like the TSX, TSX Venture Exchange, or the NASDAQ)* versus the private market *(e.g. private equity, venture capital, or alternative sources)*.

The tilt of the private/public mix in recent years has been decidedly toward private markets, even with the advent of Special Purpose Acquisition Companies (SPAC's) and other cost-effective going-public vehicles and alternatives.

Source: The World Bank

**% of net asset value (NAV) plus unfunded commitments.*
Source: Hamilton Lane, data as of July 2018.

Here we offer our thoughts as to why this is, as it relates to mid-sized companies.



1. Relatively speedy access to capital to grow the business. Relatively costly, but can be very time-efficient with the right investment bankers.

2. Ready access to capital at good valuations for acquisitions or other opportunities for 'repeat issuers' with established stories and strong followings.

3. Increased ability to retain key employees by being able to grant them stock options or shares of the company's stock.

4. Enhanced company profile in the marketplace and with customers.

5. Liquidity for employee shareholders – the ability to sell any number of your shares in the market whenever you wish, market conditions permitting. (More on founder management owners later.)

    - Subject to hold periods (ie. existing shareholders will be restricted from selling any shares in the market for a pre-specified period after a public financing). This period varies with the facts of the situation.

6. "Home-run" valuation potential. The public markets can offer the potential for valuations that far exceed the private markets--valuations that frankly no one really can explain!

- This can happen when your story is "hot" and addresses a strong area of intense current interest for investors, such as electric vehicles (EVs), enterprise cloud-based software, or automation.

- This doesn't always tend to be a long-term phenomenon, however. More of a "boom/bust" phenomenon, frankly, which can actually hurt companies that need to raise capital on an on-going basis to grow.

1. If you are still uncertain of your core business model or value proposition for the foreseeable future, for example, whether you will be profitable in the coming year or two, or whether you will sacrifice short-term profitability to maximize growth by making necessary investments in infrastructure, major new hires etc.

    - Public markets tend to prefer steady, predictable profit growth as well as maximizing sales growth, and therefore tend to punish companies that disappoint or surprise them.

    - Private investors tend to look more at the long-term fundamentals of the Company, not quarter-by-quarter performance. (They will still have quarterly performance milestones of some sort.)

2. A key consideration is how long the window is for you to create substantial shareholder value. If it is longer than two years, you won't

likely get full value for this potential shareholder value in a public deal, as the public markets don't generally look out this far into the future.

- A private deal would generally make more sense in this case.

3. If you are still anywhere near the $10 million-in-revenues level or less than $50 million in total value, you will be considered <u>very</u> <u>small</u> by public investors.

    - Most institutional investors will actually be restricted from investing in your shares as long as you are below their minimum size threshold, limiting your options significantly in the public markets.

    - If the Company would be a "Micro-cap" stock with small "float" (ie. the total value of freely tradable shares not held by controlling shareholders or management), very low trading volumes are a major potential concern.
        - There has historically been little consistent liquidity in Canadian and even U.S. junior markets for small companies.
        - This can significantly limit existing shareholders' ability to sell more of their shares at good prices.
        - Little to no research coverage by equity analysts at the investment banks. They need trading volumes for the shares, as this is how they earn their income.

    - Bottom line, companies need a market capitalization (total dollar value of all of the company's shares) in excess of C$100 million to garner the interest of institutional equity investors such as mutual funds and pension funds.

    - Otherwise, interest in the stock will likely be limited to small retail investors. This interest is more unpredictable and volatile—and is the first segment of the market to dry up in bad market conditions or a turndown in the economy etc.--but as we discussed earlier under "home run" valuation potential, this can also mean fantastic valuations that almost defy logic. This requires some careful planning, and some good luck.

    - Founder management owners who own a large percentage of a public company typically have a tough time exiting in the public market. Selling of shares may be read as a negative signal to the market.

  - While there are solutions such as a planned divestment, as in selling some shares every year, in general, liquidity for founder management is not the same as liquidity for all the other investors.

- No assured ultimate exit for existing shareholders.
  - No mechanism or preset timetable for existing shareholders to sell their remaining positions, as there would be in a structured private transaction.

- There is, in fact, a well-established trend for micro-cap public companies, referred to as "orphans", to take themselves private (become private companies again) to avoid all the costs of being a public company without gaining any real benefits of being public with no trading volume in their listed shares.

- All these comments apply generally to the U.S. stock exchanges as well.

4. If you expect to be extremely profitable and have limited capital requirements, you won't likely need to make the necessary investments to become and remain a public company—you can access your own cashflow to grow, rather than the public stock markets.

    - Public markets are generally a better option if you expect to have on-going capital requirements—if your next financing should do the Company for a long time, you may not capture the attention of public investors or the equity analysts who cover stocks and make investment recommendations.

5. No growth or limited growth in the Company's market for its products and services?

    - Mature, stable companies are often more highly valued by private investors who like their stable cashflows.

6. Privacy considerations. All material contracts, product developments, staffing changes and strategic relationships will be reported and

scrutinized, also adding to your legal costs. Disclosure requirements are continually being expanded, often at significant time, effort and cost—and risk—to the company.

7. You also have a lot more flexibility if you remain a private company. Public companies must avoid even the remotest perception of conflicts or impropriety, whether reasonable or not.

8. Shareholder and corporate activism. On a related note, public companies are coming under increasingly intense pressure, and not just from shareholders, to meet social governance and a wide range of 'hot button' issues. Some of this is rational and economics-based, some of it is perhaps not—you can be the judge. Private companies often have a level of separation from this often-volatile arena of public opinion and perception.

9. Cost. The generally accepted total combined legal, regulatory and related administrative cost of being a public company is approximately $1 million per year for smaller companies in Canada, and far higher in the U.S.—and this excludes the additional risk to directors and management in the post-CSA world in Canada, and Sarbanes-Oxley, Dodd-Frank, and JOBS in the U.S.

    - You need to consider the effect of this drag on your bottom line on your cashflow and your on-going valuation for future financings.

To conclude, there are a number of complex issues you will need to consider and weigh as you determine your financing and capital market strategy, in addition to considerations of how and where you will get the best terms of financing.

Bottom line, both the public and the private capital markets can make sense for private companies in certain instances.

Sapient Capital Partners can help you weigh the options and make the right choice.

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We hope this paper is helpful, but stress that it is for your general information only. We urge you to obtain proper professional advice, be it legal, tax or corporate finance, before making any decisions regarding your business.

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