



it's about **YOU**

Today's Investment, Tomorrow's Return - A Catalyst for Resurgence

RESEARCH
MONEY

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Where are we now?

- Telecom industry is a \$150B industry – but has come down from a peak of \$250B+
 - (Telecom Equipment segment has fallen to \$40B vs. \$90B)
- It is a global market and Ottawa/Canada is one of the centres of excellence
- The market will evolve and new technologies will be adopted – it is a matter of time
- Bold investments will return handsomely in 2005/2006
- Technology change causes churn in Telco and enterprise capital expenditures (typical industry cycles and technology waves)

- It is estimated that there is between \$2T and \$2.5T on the sidelines today in North America, ready to enter the equity market.
- Of the cash available to move into the market, there could be as much as \$125 B (5% thereof) entering the VC market – Now!

Venture Capital \$ = R&D \$

- Value of a dollar in our economy versus in U.S. economy
 - Capital gain (tax)
 - Capital spend
 - Operational expenditure (rent, professional fees)
 - Salary base
 - Consumption taxes
- Intellectual capital and our centre of excellence
- Knock on effect - \$1 invested generates \$10 of economic activity



Present Value Impacts on Tax System \$1,000 Early Stage + \$5,000 Follow-on Investment

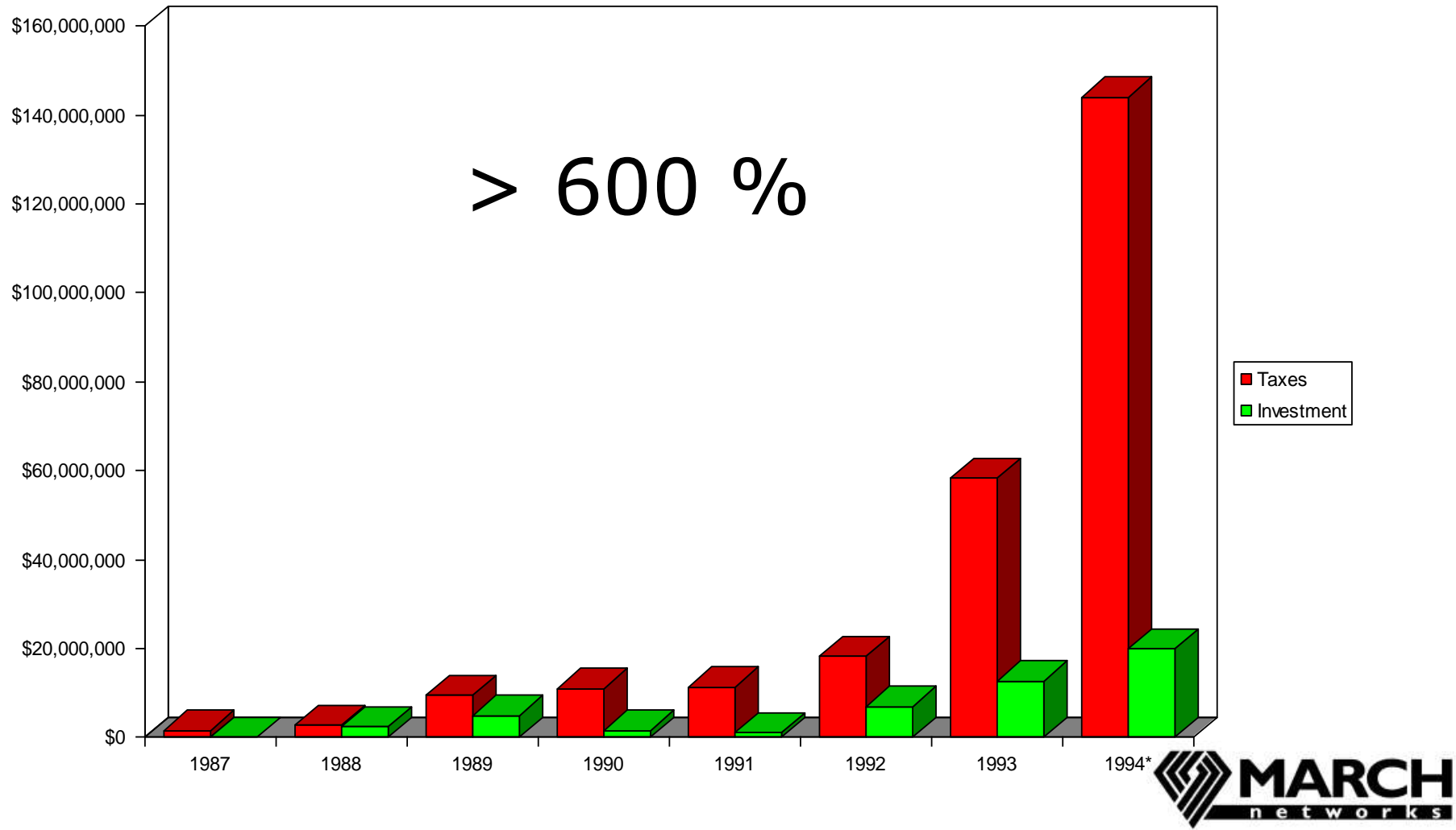
- Capital gains \$528
 - Early stage \$88 (\$113 five years out)
 - Later Stage \$440 (\$565 three years out)
- Salary taxes \$1,282
- Downstream activities \$6,123
 - Corporate income taxes \$389
 - Transactional taxes \$1,947
 - Salary taxes \$3,787
- Costs (ITC's and PV of future loss carry forward) \$2,150

*Net-Net – Each \$1,000 Early stage investment
yields \$5,783 in Taxes*





Newbridge Case Study: Return and Investment

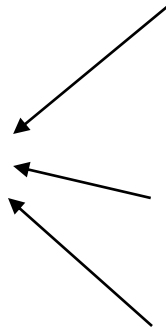


- \$ Billions in exports over the life of the company
- \$Hundred Millions invested in R&D
- Thousands new high tech jobs in Ottawa, Toronto, Montreal, Vancouver and Halifax
- New tax revenues of over \$Hundreds Millions
- Anchor company for high tech cluster (affiliate program)
- Development of several hundred local supplier jobs
- Strong relationships with local universities
- 2,000 hrs/employee of training - increasing local skill base

Let's Encourage Early Stage Investment

- Angel community needs encouragement now!!
 - VC's are in the process of returning funds to investors (ie. They are NOT investing the money they have today!)
- Capital Gain tax exemption for early stage investor cost only 1.5% (**\$88**) of the net-net proceeds of the \$5,783 additional taxes reaped from the program
- *Not in the analysis*
 - A profitable operating company (value to the economy of \$30k - \$50k per job - based on incentives paid to attract investment)
 - Economic benefit from wealth creation through employee option plan (beyond salary driven accelerator effect) – Value to economy of a higher ratio of Disposable Income per Job Created?
 - Wealth creation in the hands of the Angels

**Reinvestors
in economic
Activity**



Summary – Intensive R&D makes “winner industries”

- Early stage investment a significant driver for the economy
- We should be investing when the price is low so we can reap when the price is high
- Two significant actions can serve as **catalysts for resurgence**:
 - Capital Gains Tax exemption for early stage investors to get things rolling
 - Employee Stock Options tax exemption to retain our best and brightest



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Q&A

Thank You

