

# Brave micro-caps tackle the waves

Markets have been choppy, but Azurn and Digislide, both keen to grow, went ahead with their IPOs, writes **Brian Corrigan**.

**A** confidence slowly returns to battered financial markets, initial public offerings (IPOs) – which had all but dried up – are starting to trickle through again.

The recent listings of information technology companies Azurn International and Digislide indicate life is returning to the sector.

However, a leading micro-cap analyst has cautioned that companies shouldn't rush to list, and could be better advised to wait another six to 12 months because of undervaluations on the market.

The initial performance of one recent listing backs up his claims that it would be better to hold off.

Microequities chief executive Carlos Gil says investor sentiment has improved considerably, and there is an increased appetite for risk, as the global economy has shown signs of stability and equity markets have enjoyed a strong run.

He predicts the number of companies going public will start to accelerate towards the end of the second half of the financial year, particularly if current equity levels hold up. But although conditions are improving, Gil advises patience.

"We still think the market is undervalued. If I was thinking of listing I would put the process off for another six to 12 months," Gil says.

"Particularly in our [micro-cap] asset class, we still think ratios and valuations are depressed in some very good quality companies."

Micro-cap covers companies with a market capitalisation of between \$5 million and \$200 million.

Digislide is one technology company to get its float away in the past couple of weeks.

Digislide chief executive Luceille Duthred says the company had originally planned an offering price of \$2 but decided to scale back to \$1.25 because so many companies had had 40 per cent or more wiped from their share price in the financial storm.



Azurn chief Ananda Rao says the company raised \$1.13 million in its IPO, at the low end of expectations.

Photo: JESSICA SHAPRO

After little more than a week of trading, its shares were worth less than one-third the offer price, trading at 38c when the market closed yesterday.

The South Australian company makes hand-held projectors that can be used in conjunction with high-end mobile phones, notebook computers and gaming consoles including Nintendo's Wii, Microsoft's Xbox and Sony's PlayStation.

For gamers, this means a screen can be projected onto any flat surface so the console no longer needs to be hooked up to a television set. But hand-held projectors will also have a range of business applications for a broad range of industries including health care, graphic design and real estate.

While hand-held projectors are an emerging market today, analyst firm Insight Media has estimated more than 16 million of these devices will be sold worldwide in 2012.

Digislide has appointed a small number of specialist independent resellers and has been in discussions with a national retailer.

Evaluation models have been sent to Asian countries including Singapore, Thailand, Indonesia, Malaysia and South Korea. The

company is also represented in California and New York, looking at a possible US launch. Digislide raised more than \$3 million through its IPO and a further \$1 million off-market after the IPO closed.

It had hoped to list sooner having started down that path 18 months ago, but held off because of deteriorating market conditions.

Azurn International also got its float away a couple of weeks ago.

The company, which is headed by Infosys Australia founder Ananda Rao, has an established publishing business but is projecting future growth from its collaboration and education divisions.

**It wanted to list but held off because of market conditions.**

Its collaboration technology enables unified video, audio and data communications.

The company plans to push rich media content from its publishing business into the education sector using the same collaboration technology platform. It has signed an agreement with Hughes Communications, which will set up 30,000 internet centres around India based on Azurn's technology.

"If the University of Melbourne wants to deliver its MBA [master of business administration] to India, a teacher can provide a class in real time to participants spread across the country," Rao says.

"The technology allows one-to-many or one-to-one collaborations. So, when a teacher is giving a lecture, students can post questions in a chat room that runs simultaneously," he adds.

Azurn had expected to raise between \$1 million and \$3 million through its IPO. Its eventual total of \$1.13 million was very much at the lower end of those guidelines but Gil says the fact it managed to float at all is indicative of returning confidence in the market.

"This is a company that turned a loss of about \$8 million last year and had a 'going concern' warning from

the auditors on the prospectus," Gil says.

"Six months back, that type of company would have no chance of going public but they've pulled it off. I was surprised that company went public given where we are in the [economic] cycle," Gil says.

Azurn had an issue price of 20c and closed yesterday at 18c.

NICTA, Australia's centre of excellence for information and communication technology, has intentionally slowed the progress of potential spin-off projects in recent months to protect them from difficult market conditions.

NICTA chief executive David Skellern says venture capital companies had been reserving a lot of funds to keep existing investments going and hadn't been able to do IPOs.

"Generally, the industry is very slow to make decisions about things so take-up of product and new sales for start-up companies have slowed dramatically," Skellern says.

"The sales cycles have lengthened and the time to break even has been pushed out, all of which makes companies look less attractive as an investment proposition."

In response, NICTA has scaled back teams and provided more time for some projects to develop including its GFiFi gigabit wireless chip project.

This was expected to be spun off as a separate company back in March but Skellern says the market was not ready.

So NICTA decided to drop staff from the research team and allocated extra funding to keep the project under wraps for another 12 to 18 months.

"That gives us enough time for that team to keep developing, get a bit closer to market and be ready for a period when there will be more availability of investment funds," Skellern says.

In two cases, where there was no more research work to be done inside NICTA, it has formed wholly owned subsidiary companies so that teams can market test their technologies and try to land some customer wins that will attract investment funding.

"There's a general belief that things will be a lot better this time next year," Skellern says.

"By late 2010 the industry view is that we will be coming out of it."