

Yellow Point views its success through Prism

Its first investment is a \$7M stake in a medical firm

September 22, 2004 - The investment team at Yellow Point Equity Partners, a newly formed Vancouver-based private equity fund, looked at about 100 proposals before settling on its first investment: a \$7-million stake in **Prism Medical Ltd.**, a publicly listed, Ontario-based company that makes equipment to help the mobile-impaired.

Yellow Point has invested \$6.85-million in Prism by way of an 8% seven-year convertible debenture. Prism will use the cash to help fund the \$14.3-million acquisition of two British medical equipment companies. Prism's insiders invested alongside Yellow Point, anteing up \$2.8-million.

"The real goal is to become an equity investor. We have structured our investment in such a way that we have a lot of upside," said Brian Begert, one of the two managing directors at Yellow Point, noting that the fund could end up with a 16.5% stake in Prism.

Added Andy McIntyre, chief executive of Prism: "Yellow Point will be a great partner. They bring a lot of talent to what we do and we selected them after hearing from a number of other people who were interested in investing."

Begert highlighted two key aspects about the investment:

- The low conversion premium (25 cents of 7% relative to the stock's recent trading price of \$3.50 a share).
- The limited ability of Prism to redeem the debentures. There is a three-year-no-call period while Prism can redeem the issue if the stock doubles. In that case, Yellow Point would convert.

The private equity fund was formed by three long-time Vancouver-based market participants: Begert, David Chapman, and Rusty Goepel. Begert and Goepel were two of the originals behind Goepel Shields, a firm that became Goepel McDermid and, later still, Raymond James. Begert and Goepel also worked together at Pemberton Securities, a firm that was acquired by RBC Capital Markets in the late 1980s.

The three rounded up support from key executives in British Columbia (including 18 chief executives), a number of the city's senior lawyers and Cypress Capital Management LLC, a money management firm recently purchased by AGF Management Ltd. As an indication of how people do business with people they know and trust, Goepel Shields helped set up Cypress Capital a few years ago.

Toss in the contribution from Begert, Chapman, and Goepel and the investment committee had about \$30-million to play with. The fund – which has about 40 limited partners – has a 10-year term. The fund had its first closing in the spring, with the final closing in mid-summer.

The plan is to invest in later-stage private companies primarily based in Western Canada, an area the founders regard as underserved. "The mandate is to help build significant and sustainable growth businesses in partnership with outstanding management teams," Begert said. The idea is to invest between \$2-million and \$20-million per investment.

When the three founders sought external capital, they decided to focus on contributions from individuals rather than from institutions. Their reason was straightforward. "The value-added nature of the individuals was such that we got involved," Begert said. "Having individuals as investors enhances the deal-sourcing capability of the fund. Institutions have money but not necessarily industry expertise."

Having individuals as limited partners brings another benefit: the individuals, with expertise about a particular industry, can assist with the due diligence involved with the potential investment. "It's nice to have specialized industry expertise," Begert said, noting the economies of British Columbia and Alberta are "eclectic".

Yellow Point allows co-investment on an "ad hoc" basis. For instance, on its current \$7-million investment, one limited partner raised his overall stake by investing outside the fund.