

## SMALL COMPANIES

# BIG DESIGNS

In an increasingly crowded market, small companies must work hard to get noticed. The secret is a clear investor relations strategy.

SMC Group  
chief executive  
Stewart McColl  
presents his  
small-cap  
business with  
flair and  
enthusiasm.



### BY DAWN COWIE

Professionalism goes a long way in a small quoted company. No matter how good your business model, if you don't present it to the market in a clear, consistent and convincing way, investors won't give you a second glance.

Every press release, presentation and phone call from your company should leave a distinct impression of who you are, what you do, what your potential is and how you plan to realise it. Easily said, not so easily done.

One Aim-listed company that already has a firm grasp of the importance of professionalism in financial communications is SMC Group. Although the UK-based architecture business only launched on the market on June 10 this year, the clarity, flair and enthusiasm with which CEO Stewart McColl explains the business model, presents the financial projections and talks

#### Key points

- \* Clarity, flair and enthusiasm are key to a successful small-cap IR strategy.
- \* IR can sap the CEO's time. Think carefully about whether it's worth hiring third-party support.
- \* Chase your broker if it falls short of expectations. And set it targets.
- \* Go out of your way to help sell-side analysts: they'll remember you.
- \* The media can put you on the map. Invest time and resources in comprehensive and clear PR.

about industry trends, really instils confidence. McColl's previous experience running an annual report design firm, which he sold to media giant WPP, has undoubtedly given him a good insight into how companies should present themselves to the market. But a focus on professionalism is also at the heart of SMC Group's business model.

"We structured this company as a plc from day one in 1996," McColl says. "We're not a practice of architects or a partnership, where it's a vocation or lifestyle business. A lot of investors were doubtful about investing in architecture because it hasn't delivered good returns in the past, but we've convinced them that we've come to the market for a totally different reason."

That new model is to grow the business by acquiring successful architecture practices and bringing them together under the SMC banner. There they will be run as efficient businesses with the scale to compete for large, ambitious projects and to attract the best talent in the industry. It may sound obvious but no-one else in the industry is yet doing it.

As CEO of a newly listed firm with a £25m market cap, McColl shoulders most of the responsibility for IR, with support from business development director Gordon Watson. This currently takes up 25 per cent of McColl's time: "Some weeks it's five per cent; others it's 100 per cent," he says. "The most important aspect is not to allow yourself to get too diverted by one particular element of the total process or to take your eye off the existing business."

#### Time well spent

Calculating the amount of time a CEO or CFO can afford to spend on IR is tricky. It's an issue that is worth thinking about before you launch on the market. "Before you IPO, be aware of what the world will be like after you IPO," says Chris Munden, who heads the IR team at financial PR firm Abchurch. "Do what you can to make life easier and then get on with running the business. If you are spending 200 to 300 hours a year on IR activities, you should ask yourself whether this is adding value to the company compared with the cost of hiring external advisers."

Getting a high-quality corporate and IR web site could be an important first step. "This will head off many questions and enquiries and it makes you look good. It puts you on the map," says Munden. SMC has just relaunched its web site with its latest financials. "We knew that the web site was not up to the standard that we wanted it to be. We're learning," says McColl.

Another good way to ensure that you use your time wisely is to put your IR strategy on paper. "Few companies have a written IR strategy that states what the company is trying to achieve. How should the company get its message across? Who should the shareholders be?" says John Pierce, CEO of the UK Quoted Companies Alliance (QCA). "I believe the IR programme should be agreed at board level and be an annual agenda item as part of any strategic review of the business. It often doesn't get the attention it deserves."

#### Understanding the sell-side

In a crowded market, winning analyst coverage is an uphill struggle for smaller firms. "CEOs of £50m market-cap companies have got to understand that it is extremely unlikely that sector analysts at Morgan Stanley or Goldman Sachs are going to be interested in them," says Munden. "Firms must also be aware that some analysts have ulterior motives, he adds. "They may want to take a look at you because the brokerage house does work for one of your peers. They may only be interested because you are a new firm without necessarily being interested in writing any research."

That's not to say that building relations with sell-side analysts is a fruitless exercise. It's just a question of expectations. "For a small company, or one in a niche sector, being included in a sector report is a good start," says Munden. "A few paragraphs in a daily note or a comment in a morning meeting can be just as important as a 20-page research report."

Another powerful tactic is to become the first person that analysts turn to



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when they want to understand something about your sector. "If you are able to tell analysts what a change will mean for your business and sector before your peers, it will influence the reputation of the company," says Pierce. For example, barcode manufacturer Datalogic was the first company in Italy to report under IFRS, before the country's blue-chips had got round to it. That's the kind of publicity that analysts remember.

#### Don't give up

Mariella Burani Fashion Group (MBFG) is another good news story from Italy. The persistence of IR head Carol Brumer is paying off, but it's taken years, not weeks. When Brumer joined the company, shortly after its flotation in July 2000, the response from analysts and investors was relatively lukewarm.

"With 30 years' experience in luxury apparel, MBFG was confident of its ability to produce and distribute top-quality branded goods costing 15 to 20 per cent less than rivals. But, in 2000, investors were incredulous. The concept of accessible luxury was simply not readily accepted," says Brumer. In recent years, a challenging period for the industry, average annual sales at MBFG have grown at 28 per cent and profits from ongoing operations by 72 per cent.

Using proceeds from its IPO, the firm has expanded aggressively through strategic acquisitions and organic growth, moving beyond luxury fashion into leather goods and footwear, and developing its retail network. "With time and visible results, it has gained credibility in the financial community. As a newly listed small-cap, we had to be proactive to get our story heard," Brumer says.

Developing strong relationships with 15 sector analysts has been the best way to get sales recommendations, says Brumer. Analysts have helped to instil rigour and been a good source of feedback about the strategic direction of the company. "They always say: 'Don't forget about us.'"

#### Broker relations

Possibly the toughest relationship for small firms to manage is with brokers. "There is a bit of mystique around brokers," says Pierce at the QCA. "Many small companies aren't sure what brokers should be doing, so they don't chase them up in the way that they would a supplier of any other service." Pierce

### HANDLING RETAIL INVESTORS

Many small-caps fail to target retail investors because they think it will be a distraction from the main objective of attracting institutions. "But it's a mistake to think that private investors are idiots or time-wasters," says Lee Godfrey, COO of investor communications firm WILink. "Most high-net-worth individuals don't muck about. They do their own research; their average investments tend to be £20,000 to £25,000; they tend to vote with management; and they generally hold a stock for three to five years."

By helping quoted companies to attract high-net-worth individuals, WILink has built up a database of 2.5 million private investors worldwide. These individuals have on average £200,000 to invest. When the company launched itself on the market in 2000, it raised £8m from retail investors.

If you're a smaller quoted company with limited liquidity, taking the time to meet retail investors at private client roadshows will move your share price.

recommends that companies set their brokers precise targets – such as an introduction to six new potential investors every three months.

As companies grow, they tend to become increasingly reliant on brokers for logistical support with expanding roadshows. This is when it becomes most important to think carefully about your broker relations, as Isabelle Biarnes, IR head at French mid-cap mineral processing firm Imerys, can testify.

When Biarnes joined the company in 1999, she was charged with building the financial communications team from scratch. At the same time, the company was going through enormous change. It had just doubled in size following the acquisition of English China Clays (ECC); its focus had shifted from metals and minerals to a concentration on minerals alone; and its name had changed from Imetal to Imerys. One of the top priorities was to get on the road and make sure that analysts and investors understood the company's strategy, business case and prospects.

These days, Biarnes and her CEO or CFO visit institutions in 15 cities every year. This includes 180 meetings with more than 300 investors. "We rely on brokers but we diversify the brokers we use," she says. "Don't always go to London or New York with the same broker, because you will visit the same people. We make our own assessment of our main shareholders and conduct peer analysis. Then we ask brokers to target specific fund managers. It helps to diversify our investor base."

Although the big stocks get the in-depth research from brokers, says Biarnes, you can encourage research through broker allocation. For example, Imerys only goes on roadshows with brokers who are actively following and publishing research about the company.

#### Targeting US investors

Attracting the attention of banks in the US is even tougher. "We used to have a lot of problems," says Brumer at MBFG. "I really had to aggressively pursue the Italian banks based in the US. With a market cap of €336m and a free float of 35 per cent, we are a micro, micro-cap for US investors."

Being an American, though, Brumer was bullish about the prospect of having US investors. "I was travelling to the US frequently and, when possible, would establish introductory meetings with the banks and their research and sales teams. Many of the banks now know and understand our group and its growth strategy and have been extremely valuable in providing introductions to the right US investors. A few years ago, trading volumes averaged about 30,000 to 35,000 shares a day but now it is 85,000 a day, so we have become more attractive to investors with more stringent liquidity requirements, but we still have a long way to go in the US," she says.

Meanwhile, the Borsa Italiana has done a lot to increase the profile and credibility of Italian small- and mid-caps in general: its STAR indices include 70 firms with a market cap up to €1bn. The exchange has also organised conferences in New York to introduce US investors to Italian firms. "Having a group of about 30 interesting Italian small- and mid-cap quoted firms in one venue has really stimulated US interest and given us fantastic exposure," says Brumer.

#### The power of the media

The most effective way for small companies to boost the liquidity of their stock is often through the media. John French, a serial entrepreneur and chairman of three Aim-listed and two Ofex-listed companies, swears by the power of the press. One of his firms, Cromia Group, which sells surveillance products to the police, army and anti-terrorism groups, has started thinking laterally about its PR. Rather than just targeting sector journalists with its corporate story, Cromia is writing bylined articles for the insurance press explaining how companies should protect themselves in high-risk situations.

If you're hiring a PR firm to target the press, French has two bits of advice. First, make sure that your business will be meaningful to them either because of their size or sector specialism. Second, make sure they are well briefed.



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Riccardo Taverna, a director at B2 Comunicazione, recently analysed more than 2,000 press releases by Italian firms to find out if they were targeting the media effectively. Press releases issued by large companies tended to have a fairly consistent structure – the essential information in the title and subtitle, a quote from senior management, branding and contact details. But the quality from small-caps varied greatly. Worst of all, there was a tendency to bury bad news. "It's a question of inexperience," says Taverna. "But if a company reports bad financial data in a transparent way, it helps to build the company's reputation." This February, the Borsa Italiana introduced a rule setting minimum standards for the content and structure of press releases. Members of the STAR indices are also required to have an in-house IRO.

#### Building an IR team

In-house IR teams vary enormously whether at large or small companies, but a wise firm grows its IR resources in line with its business. Rather than market-cap, the best guide is how much interest you attract from institutions. Although UK biotech firm Acambis has a £258m market cap, the sector attracts a disproportionate amount of media and sell-side coverage. "Historically, we have tended to be reactive and opportunistic about our IR activities but we want to become more strategic," says IR head Lyndsay Wright. The communications team now includes the CEO, CFO, two IROs and one VP for finance.

Finding out how your sector peers handle IR could be a good way to assess what you're doing. In Acambis's case, one of Wright's peers at a competitor wrote her job description when the company was deciding what Wright's role should be because there were few examples in the industry.

Before you dismiss the idea of hiring an in-house IRO, it's worth considering the impact that new disclosure regulations, particularly accounting and market abuse rules, will have on your workload. Many big companies are struggling to cope; small-caps cannot afford to stick their heads in the sand.

**DAWN COWIE** is deputy editor of *Real IR*.