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Gaining Visibility for Small Caps

By Nicole Noutsios

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Gaining Visibility for Small Caps

By Nicole Noutsios

Every investor relations officer has challenges. However, small-cap IROs often face additional obstacles: lack of brand name recognition, lower liquidity, stock price volatility and declining equity research. With limited budgets and resources, small-cap IROs often need to be resourceful, creative and, at times, extremely persistent in pursuing a successful investor outreach program. Although every company has different limitations, there are many simple investor program basics that IROs can employ to raise their company's profile on Wall Street.

Consistent Messaging

Before targeting investors and analysts, it is imperative to develop the key elements of your messaging platform. Use this platform to position your company on Wall Street and create a solid foundation for your IR program. It is important to keep in mind that small-cap stocks often lack the brand name recognition of larger companies. Be prepared to educate potential investors on the basics of your company's profile — Wall Street may not know who you are. This may include sharing information on your business model, products, strategy and financial fundamentals, even if these components seem remedial to you.

When developing your messaging platform, it is important to have consistent communication from within the company — be coordinated on all fronts. One way to achieve this objective is to work closely with your management and PR team to synchronize your external messaging. "What really hurts is when there are communication conflicts coming from the company," said Mike Crawford, equity analyst at B. Riley and Co., who covers many small-cap stocks.

After you have developed an integrated and clear messaging platform, make this information easily accessible to your investors. For example, you can incorporate

your key investment appeals into IR collateral such as an IR fact sheet, data sheet or IR CD. These materials can be used in IR packets and posted on your Web site.

Gaining Coverage

For a variety of reasons, many sell-side analysts are fleeing small-cap stocks. According to Thomson Financial, 45 percent of the S&P 600 small-cap index lost at least one analyst the first eight months of 2004. A number of tactics are available to expand declining research coverage. One method is to leverage your buy side to promote your company to the sell side. Many IROs are asking current investors who have solid sell-side relationships to recommend their companies for

research coverage. “With turnover in equity research coverage, a key aspect of my IR program is to expand my equity research base,” said Anne Marie McCauley, director of investor relations at Verity. “Although I use a variety of methods for outreach, I’ve found that leveraging my investors has been extremely helpful in targeting additional research coverage.”

You can also target independent equity research firms that focus on smaller companies. In the past few years, many independent equity research firms have extended their research to include micro- and small-cap companies. For instance, they may

focus their equity research on companies with market caps below \$1.5 billion and a lack of traditional Wall Street following.

Investor Conferences

Presenting at broker conferences can be a great way for companies to meet new investors and gain exposure. Yet, with little or declining research coverage, it can be difficult to get invited. Be proactive — take advantage of last-minute company cancellations or, when targeting additional sell-side coverage, ask prospective analysts to keep your company in mind when allocating spots for confer-

ences. “Being persistent on a number of fronts helped us gain attendance at several top broker conferences in 2004 without the equity analysts providing research on our company,” said Nadine Padilla, vice president, corporate communications and IR at Biosite.

Targeting Program

Investor targeting programs should be an important component of any IR program. It is critical to prepare, however, before you start an active outreach program. First, develop a list of investors who could buy stock in your company based on your market capitalization and business fundamentals.

Don't Overlook Your Most Important Target Audience

When it comes to targeting their audiences, IROs often think first about buy-side portfolio managers, sell-side analysts, pension fund managers and the like. However, IROs at their peril may be overlooking a key target audience: their senior management. Here are some tips on how you can make senior management appreciate your role within the company.

1 Determine your senior management's IR hot buttons. What do they want out of IR? Stock price improvement? Improved shareholder communication? A new shareholder mix? If management's hot buttons are different from your own, then you should sit down with senior management and make sure everyone is on the same page with regard to expectations for the IR program.

2 Keep senior management informed with regular reports. Consider a weekly one-page report that includes stock price performance versus the market and peers, analyst research, developments in the company and at key competitors, economic and industry information, and IR accomplishments such as conference attendance and company news in the financial press.

3 Share sell-side research reports with senior management, line managers and others in positions of responsibility at your company. Sharing your knowledge resources with internal colleagues is an effective way of strengthening key relationships that are important to encourage a reciprocal exchange of information.

4 Share market feedback. Use feedback from investment community meetings to update your senior management on strengths and weaknesses of the company's messages and what issues most bother investors. Use this feedback to shape future presentations.

5 Don't be afraid to deliver bad news personally. When an analyst downgrades your company or the stock drops significantly during the day, let senior management hear it from you before they hear it from someone else. You'll earn respect for your willingness to deliver the bad news as well as the good. IRU

Source: SNL Financial IR Solutions, www.snl.com/irsolutions/



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Second, evaluate your shareholder composition to identify investors with additional buying potential.

If you have a limited budget and you are a Nasdaq-listed company, Nasdaq-online has an extensive proprietary investor database.

Although it takes a bit more work to find them, there are many investors who invest solely in small-cap companies: Many money management firms have started funds focusing on small caps, and most of the larger investment firms have at least one small-cap fund. “After conducting an investor targeting program, I have found that there are many small-cap managers who are willing to have a long-term relationship with Biosite. At least 75 percent of my top 20 investors have held our stock for over a year,” said Biosite’s Padilla.

Targeting Retail

When developing investor targeting plans, many IROs overlook the retail audience. If targeted appropriately, retail shareholders can be long-term partners for your company. For example, the National Association of Investors Corporation encourages a buy-and-hold strategy and boasts smaller turnover rates. The average holding period for its investors is more than six years. “I originally started our retail program in an effort to include more long-term investors in our shareholder base,” said Peter Schuman, director of investor relations at Coherent. “It has been more than five years since we began targeting retail, and we have been successful in attracting the desired mix of shareholders. Directly working with NAIC, Standard & Poor’s and other retail-oriented organizations has been extremely beneficial in helping us reach our objectives.”

Some of the activities NAIC sponsors include an annual report mailing program to investor clubs and weekend investor fairs. The American Association of Individual Investors (AAII) is another organization that conducts outreach to individual investors.

As a small-cap IRO, you have many challenges to overcome, but with a strong, well-thought-out IR program, you are guaranteed success. Don’t be discouraged — it is important that you remain persistent and identify the programs that will have the largest impact for your objectives. Sometimes small, focused programs can have large-scale success. **IRU**

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