

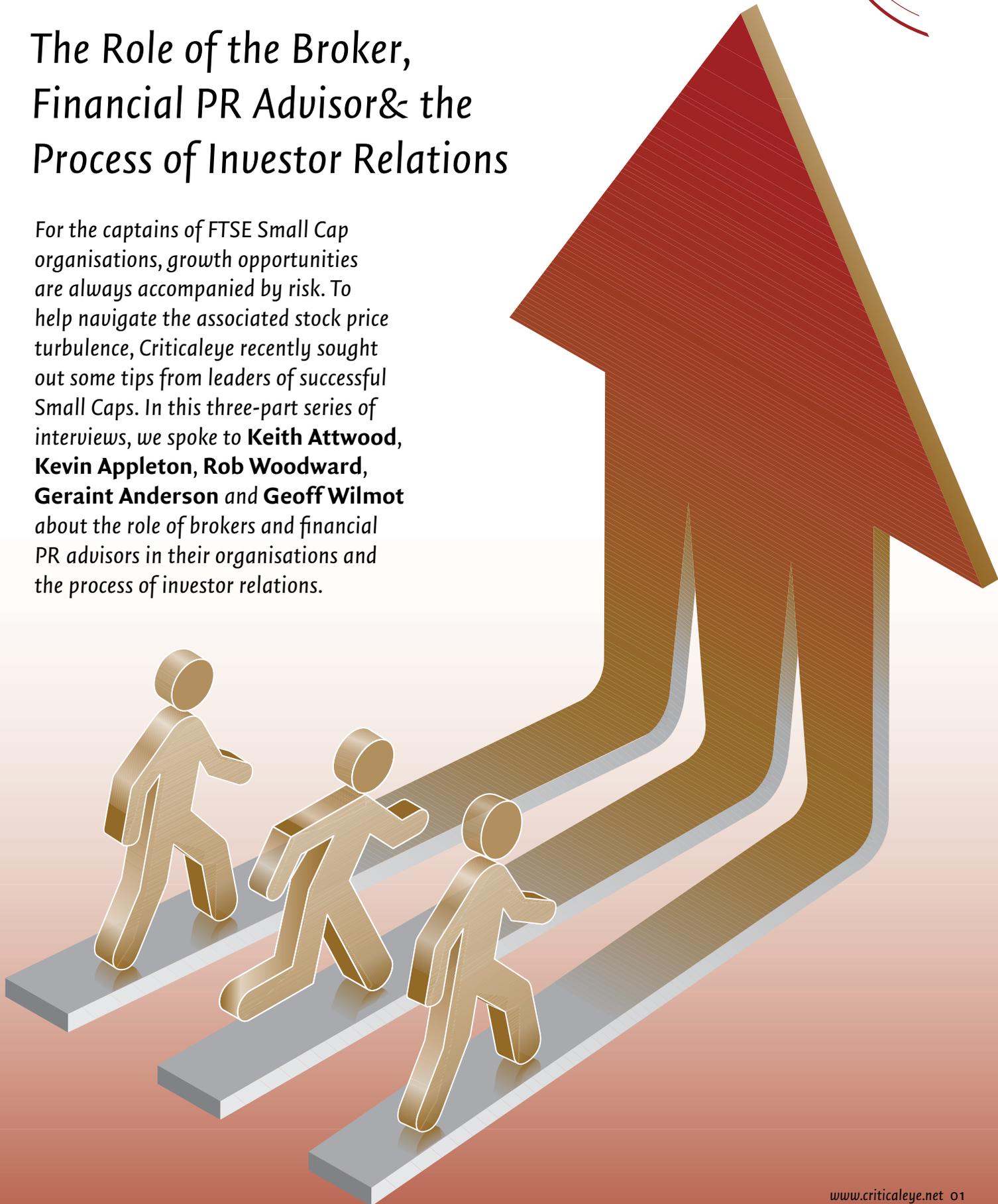
NAVIGATING SMALL CAPS

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The Role of the Broker, Financial PR Advisor & the Process of Investor Relations

For the captains of FTSE Small Cap organisations, growth opportunities are always accompanied by risk. To help navigate the associated stock price turbulence, Criticaleye recently sought out some tips from leaders of successful Small Caps. In this three-part series of interviews, we spoke to **Keith Attwood, Kevin Appleton, Rob Woodward, Geraint Anderson** and **Geoff Wilmot** about the role of brokers and financial PR advisors in their organisations and the process of investor relations.



What is your working experience of the role that they have played?

Keith Attwood: They are very important in shaping communications with investors, especially so where the company is new to the market.

Geoff Wilmot: Brokers have two loyalties: to clients and to institutions. So your relationship manager must be on your side. The role of the research team is critical in ensuring that your story is told as effectively as possible. You also need to work actively with the broker to find ways to increase liquidity in your stock, which helps them and investors.

Kevin Appleton: Our broker has helped us in specific one-off money raising events or events where we particularly need shareholder support. I think that's when you really see the immediate benefit of brokers because you come up with a need or a plan to go and get something done. They can bring a lot of energy and knowledge to bear that eases the whole fundraising process. Where they can struggle is around secondary trading; once your shares are out there and listed, it can be a challenge to ensure that they are fully engaged with your investment story and really striving to understand the detail as to why you might be a more attractive investment proposition.

Geraint Anderson: They are really instrumental in working with us to develop our investor strategy, being very targeted and very specific about the investors we're trying to reach and where we want to be in the next two or three years. A lot of it is then built around confidence and trust. They work with us in a number of other directions too, advising us on how investors will react to that strategy and making sure that they really understand our business so that they can qualify that advice. So, that's key for us. It's therefore very important that you build up a relationship with a wide membership within that broking community, investing the right amount of time with the sales team, for example, so they begin to understand your message and get the confidence of working with you. You can't delegate all of it to the CFO.

What are your tips for new ceos on managing the relationship with brokers?

Keith Attwood: Make sure that the broker is right for your business. Do they have bench strength in their team to provide quality analysis, sell effectively to target

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investors and take a pro-active approach to introducing new potential investors?

Geoff Wilmot: Be very clear what you want from your broker and understand what your investors want from you. And establish formal lines of communication to ensure that your objectives are met.

Kevin Appleton: While I think you want to have a very close relationship with house brokers to ensure that existing forecasts are reflective of what's really going on in the business, I think it's also important that the CEO doesn't intrude on that process. The real value in a story is based around the extent to which you can get an analyst to understand what the dynamics are that are driving the numbers, where the risks and the potential upsides sit. So spend time getting to know the analysts in your house brokers and make time for them to ensure that they not only understand the music, as it were, but also the words around the particular entrepreneurial symphony that you are composing.

Geraint Anderson: For me it's all about trust and confidence as a starting point, then it's about the time and effort you're willing to put into it. So, keeping regular contact with your broker is key. You look for your daily updates, you look for your key trends, you put in these calls every few weeks just to

make sure that you understand generally what's going on. You've got to make sure that the broker, the organisation, understands the strategy and they believe in the message and the strategy you're trying to get across to the marketplace. Yes, they're your number one sales tool, but they've got to believe it.

What is the impact that they have had on your stock?

Kevin Appleton: Brokers can influence ratings so, if they genuinely believe in your investment story - and I think that's something that you have to keep checking with your brokers, asking them: are you still behind this? are you still on board with what we're doing? - then you should challenge them on whether your business should be, for example, rated in the upper quartile rather than on the average or in the lower quartile. The primary driver of share price is clearly performance and short-term expectation, but I think the secondary and important driver is the level of rating that's attached to whatever that earnings or debt reduction expectation might be. I think this is absolutely the role of a broker, and I think being clear with your broker that that's your expectation is another top tip for the CEO.

Geoff Wilmot: In our case, the research team have been very important. They are

widely regarded as the best in the sector so their research is well read and trusted.

Keith Attwood: Never as much as the actual performance of the business – a focus on business performance is the absolute priority.

Geraint Anderson: They clearly have an impact but it's down to the company at the end of the day. What they can do is make sure that they open the doors to the right investors, and that the messaging is brought across effectively and efficiently. Without opening the right doors, that message becomes very difficult to get across. They are also very important in terms of supporting the development of the investor strategy and what type of investors you are looking to get on board and being very targeted and specific at aiming yourself towards those. These elements help to get you through the door.

THE ROLE OF THE FINANCIAL PR

How do you work with them?

Geoff Wilmot: Our experience to date has been limited largely to the reporting calendar. They arrange analyst meetings, provide feedback from analysts, advise on investor communications and organise your meetings and calls with, for example, financial journalists.

Rob Woodward: We recently completed a process to select a new financial PR advisor and appointed College Hill in the summer in advance of our interim results. The advisor is a key priority for my CFO, our communications team and for me and we have a weekly call with monthly catch up meetings to ensure that all strands of our work are progressing to plan.

Keith Attwood: As well as day-to-day advice on the market and communications, it is worth planning a rolling 12 months communications schedule, to ensure announcement dates don't clash with other companies' reporting schedules. In addition, try to develop coherence in the frequency and tone of market communications – this is very important and the financial PR people can help in shaping this.

Kevin Appleton: Our financial PR advisor's main role is as a conduit between the wider analyst communities, not only the house broker analyst, in order to build coverage. They are required to ensure that we've got a number of houses out there that are interested in the story and looking to write research on it to improve the demand of the environment for our stock. Once they have established a good list of people that are

interested in following you, they are also then very instrumental in making sure that the messages that you're delivering to analysts deals very squarely with any concerns, issues or questions that those analysts have. Prior to any calendar event – half-year or full-year results – our financial PR advisor will telephone all analysts to ensure that they're ready to come along to analyst briefings, but crucially they will also ask: what are the things that you would be looking for them to cover? Occasionally, analysts have got an issue in their mind, so your PR advisor can set-up a meeting in which you have the opportunity to address it head-on and ensure that people are focused on the real issues.

Geraint Anderson: Once or twice a year we have a review session about what we're trying to achieve, then make sure that we measure ourselves against it going forward. I expect daily email updates on anything that's relevant to us. You've got to involve them in the business too, so they understand as much as possible - the opportunity's not just about the group strategy level but that extra detail within the businesses, so they can support the messaging and make sure that they reach out to the right community to get that message across. It's about building confidence in the marketplace and in your own business, but almost being a little understated. I think, particularly in today's world, it's better to say a little and overachieve than over-commit and under-deliver. So you need to have that degree of control and trust with your financial PR as well.

What are your tips for new CEOs on managing the relationship with financial PR advisors?

Geoff Wilmot: Be specific about their terms of reference and establish formal lines of communication.

Rob Woodward: Although we had received good service from our previous advisor, I think it is effective occasionally to 'stir the pots' in order to refresh the relationship. From our new advisors we seek three distinct relationship links: with the City pages to ensure our story receives appropriate coverage; with the analyst and fund management community; and, because stv operates in a highly regulated sector, with the political powers-that-be. Having access to the three core skill areas under one house is very useful. It makes for a more efficient process.

Kevin Appleton: Have some very clear targets. A generic objective might be that we are going to extend coverage, that rather than us just being written about by our house brokers. We're going to look to have six or seven panellists, for example, covering this stock within two years. So set them quantitative objectives and get them to sign up to that at the point at which you appoint them, and then run periodic reviews where the subject of breadth of coverage is regularly on the table. I think the real driver is making sure that you've got good research coverage out there. Anything else is a bonus.

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Geraint Anderson: Don't get ahead of yourself - it's a long-term game. Look for that solid, dependable messaging and keep it moving forward on a consistent basis. It's about building relationships over time, putting the time and effort in with your financial PR. You don't expect instant results but it's certainly worth putting in the investment for the future.

How innovative have they been?

Geoff Wilmot: They have provided good creative input on investor communications and training for press PR.

Kevin Appleton: We have done things like running analyst dinners, making sure we get the analyst community not only engaged with senior executives and board level management, but operational management a layer or two down. Analysts often don't get the opportunity to get out and talk to those people involved right at the coalface of the business. So it brings them a level of granularity, from which they can glean useful anecdotes and grow in confidence. If they're writing something about a particular company, they can base their research on the fact that they've looked into the whites of people's eyes. I think innovation for me tends to be around making sure that the analyst community, and press where it's relevant, has 'whites of the eyes exposure' to businesses.

Geraint Anderson: They work with us to gather ideas, strip them down then debate what's right for the company. How do we reach to a wider community? How do they work closely with the brokers to make sure that the messaging is powerful? We're not looking for something that's necessarily out of the ordinary; rather we're building on solid foundations and taking a long-term view.

Rob Woodward: From our new advisors we have looked for an enthusiastic, skilled and engaged team who can inject new thoughts, direction and dynamism into telling the stv turnaround story. We treat the work of financial PR as an important on-going business process. We promote a very open style which is reflected in our dealings with all stakeholders. It's very much a two way relationship. Our advisors are part of the team - we all contribute to finding innovative ways of telling the stv story.

What impact have they had?

Geoff Wilmot: They have helped to manage press exposure and have provided useful anonymous feedback from analysts.

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Kevin Appleton: In terms of impact on overall value, it's hard to say. There is a challenge in that you can set them quantitative targets on things like increasing coverage but, if the trades in smaller quoted companies or mid-size quoted companies suddenly freeze, there isn't a great deal that they can do.

Geraint Anderson: It's only part of the overall picture. The company has to have a solid strategy and the ability to execute against it. The brokers have to reach out to the right investors. The financial PR has to help us to widen the coverage with further analysts and to get the right positive messages into other wider marketplace through the financial press and so on. So, it's a conjunction of each working together - without them, I don't care which PR firm you've got, they're going to struggle.

THE PROCESS OF INVESTOR RELATIONS (IR)

What is your process?

Keith Attwood: The Group FD and I manage the process. We develop the themes, frequency and style of the communications in conjunction with our advisors. We keep

the non-execs in the process too as they have collectively much more experience in the public markets than the two of us combined.

Rob Woodward: stv has been a turnaround story which has required a very specific approach to IR. When I became CEO, I was determined that we needed to re-establish trust as a priority. We set out a very public turnaround plan with KPIs set out for the next three years. We established 12 KPIs, each of which was selected to enable all stakeholders to measure our progress every step of the way. We use the KPIs, as well as the normal financial metrics, in all our City based communication. As well as the regular reporting cycle meetings, we also regularly host investor events at our Glasgow headquarters. In addition, we invite investors and analysts to informal updates where they can meet the full stv executive team.

Geoff Wilmot: This is managed principally by the CEO and CFO. The key focus is on maximising analyst coverage, optimising twice yearly roadshow meetings, meeting new investors throughout the year, meeting more informally with major investors, running an annual investor day to

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communicate strategy in more depth and introduce investors to senior managers, maintaining an informative and regularly updated website and optimising press coverage in financial and specialist press.

Kevin Appleton: Following analyst feedback, we assess the issues with our brokers that really need to be drilled down and given good disclosure. If that corresponds to what investors are asking we then make sure that those issues are addressed in all our communications. Problems occur if your investors think you've got problem A and you go and talk to them about issue C. Either you have developed entirely different views on the strategy or position of the business or, worse, investors think that you've taken leave of your senses. So you must either adjust their view of what reality is or at least communicate what the issues are and why their view needs to be adapted. Always take very seriously the concerns of your investors and the investment community, and never stick your head in the sand and hope they'll go away.

Geraint Anderson: We work with our investor relations groups within our advisors. I think that's important, to leverage them where we can, and very important that, within the investor relations teams within our brokers, we also have a relationship and that they are efficient. Meetings, investor days and so on, must be thoroughly planned, with clear expectations, clear deliverables and a clear structure around the way the meetings are going to flow.

What are your views on what works and what doesn't?

Keith Attwood: Don't blindly follow advice; it is certain that neither management nor advisors are always right. Give time for discussion, as these things invariably take longer than originally envisaged.

Geoff Wilmot: Good analyst coverage and regular, well-prepared meetings with investors are the most essential.

Kevin Appleton: It's easy for investors to see where the investment story or PR story around the company has separated from the numbers and financial performance analyses. They must be in death locks. Most CFOs arrive in the job having had some exposure to reporting and shareholder relations, while many CEOs arrive in their job without that benefit. You need to put yourself through the pain barrier. Go out with a good minder - somebody from your brokers or from your corporate financial advisor - so you don't do anything stupid. And make sure you grasp the process, that you absolutely understand what your investors are looking for and that you respond to it and adapt your messaging to that response accordingly.

Rob Woodward: The reception to our KPI reporting has been very positive. Through the recession we have maintained the original targets, giving everyone a benchmark against which to measure STV's progress. This approach has served us well and has been instrumental in establishing a trusted relationship with shareholders. Managing stakeholder relationships is a key priority for any business leader and it is vital that you view IR as fundamental to managing a successful plc.

Geraint Anderson: As companies develop, you've got to develop your own investor relations team, although this is not always possible for a small- or mid-cap company. It comes back to trust and confidence. If you've got the right brokers with the right investor relations teams, they can be critical to your success, and it's something you can leverage without having to invest in it significantly yourself.

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