RETAIL IR FOR SMALLER-CAP COMPANIES

Companies with lower market capitalization rely more on retail investors. Follow this roadmap of growth to make the most of these opportunities.

BY LAURA KIERNAN, KELLEY STAMM, AND CONOR DUNLEAVY

It's important for companies of all market capitalizations to have an outstanding investor relations program to effectively reach retail investors.

As illustrated by the recent GameStop and Robinhood examples, retail shareholders control a massive pool of capital that should not be overlooked. Yahoo! Finance alone has an estimated $100 billion in retail investment accounts, and Robinhood similarly processes billions of dollars in transaction volumes from retail accounts.

These two firms alone represent a huge amount of actively managed capital by retail shareholders. While we will focus on nano, micro, and small-cap companies, these strategies are equally as effective for mid-cap companies that want to broaden their reach and more effectively manage their retail shareholder base.

Every successful investor relations program needs to be tailored to the specific goals and objectives of the company's management team. Smaller companies have unique challenges due to their size, which generally represents market capitalizations of less than $50 million for nano-caps, roughly $50 to $300 million for micro-caps, and up to $1 billion for small-caps. As a result, they typically need to effectively reach a retail shareholder base.

With smaller market capitalization, it usually means these companies also have limited resources and limited visibility, making it even more challenging to compete for capital. Smaller-cap companies do not have a full-time dedicated investor relations officer, but rather it is the company's CEO or CFO who is handling the investor relations function in addition to running a business.

Occasionally, they will also have an outside IR firm assisting them. So, with these resources, it is critical to make best use of management's limited time.

Given these challenges, how do you get your message out effectively, gain visibility, reach the right shareholders and track and measure results? Here are our advice and suggestions to achieve outstanding investor relations for smaller-cap companies.

- **Set realistic goals and objectives** for your IR plan while leveraging your limited budget – both time and money. A primary goal for every public company is to achieve fair value in the capital markets, but you may also want to increase management visibility, improve corporate reputation, gain new customers, and attract the highest quality talent possible for your organization. Know what your goals are so you can create a realistic plan and measure your results over time.

- **Communicate a clear vision** of how your company creates shareholder value – this is critical to the successful execution of your IR plan. Understand what investors value in your sector and communicate that to them.
- **Tailor your IR program** to ensure these key value driving messages are communicated to the "right" investment community. Target high net worth (HNW), brokers, retail, family office, and once your company has reached at least $50-$75 million in market cap, begin to target institutional investors and sell-side equity analysts. Consider paid-for equity research with broad digital reach.
- **Understand your company's relative valuation** compared to your "capital" peers and what your company's optimal valuation should be. For example, your sector valuations may be based on a multiple of earnings, multiple of revenue, a multiple of EBITDA or a combination of these. Other sector valuations, such as for biotech, can be based on a discounted cash flow.
- **Manage internal expectations** by communicating this to management and the board. Understand that achieving these goals is a long-term process. It takes time to build, develop and execute a successful IR plan. You should start to see some results after about six months of executing your plan, but in our experience, we have found that a focused plan takes between 18 and 24 months to achieve the primary goal of fair/optimal valuation. Once you achieve that valuation, you will need to maintain your program, but it should be a little easier to execute because you will know the IR strategy that works for your equity.
- **Do not be discouraged** by interim setbacks; that is part of the process. Follow the long-term trend in your equity relative to the market to see if you are making progress against your goals and remember to benchmark results against the sector and the overall market.
- **Constantly evolve** and improve your plan as your company and sector evolves.

Well-crafted Communications

Regardless of a company's size, it is imperative that your messaging clearly and accurately provide the investment community with the company strategy, investment thesis, and a thorough understanding of the company and its operations – both past performance and future outlook.

Providing consistent, clear messaging and making the information easily accessible across all the company's outlets such as news releases, website, fact sheets, and presentations will give investors the information they need while taking the research work out of their hands.

The investment thesis must answer the question, "Why should I buy this stock?" It sounds basic, but an easy-to-understand, well-crafted story will attract investor and analyst interest and will help build your company's credibility on the Street.

Investor Targeting and Getting the Shareholder Mix Right

Possibly the largest hurdle facing smaller-cap companies is developing an investor base of reliable, long-term investors who believe in the story and the growth potential of the company. Every management team wants to have institutional investors, but as a smaller-cap company, it is much more challenging to attract institutional investors due to both capitalization size and stock liquidity.

A more natural fit at this stage is to target small institutions and individual retail investors, brokers, HNW and family offices, which tend to be ignored. These types of shareholders may be a good fit as long-term shareholders and should be part of your ideal mix between institutional investors and retail even as the equity matures down the line.

Retail holders should not be ignored, but rather need to be included as an important component in the overall shareholder mix. As we touched on previously, once you approach the $50-$75 million mark in market cap, you should also start to target institutional investors and sell-side equity analysts, but we do not recommend curtailing retail investor marketing until you are at least a small cap stock with solid institutional investor interest.

There are a few providers for investor targeting at this level.

Equity Research

Another hurdle facing smaller-cap companies is gaining high quality sell-side coverage. This is an important component in your IR plan which can provide significant exposure to a larger group of investors.

Attracting sell-side analysts to your story takes time and patience, and you will need to spend time building relationships with some of the key analysts in your sector. Researching the analysts of your peers and then building a relationship with the analysts is an important starting point.

A strategy that we have used effectively is to target the junior analyst on a larger team with a bank that has broad distribution. They are usually looking to make a name for themselves so they can move up to a senior analyst title. They are more willing to work with you on research.

The analysts may want to learn more about the sector so they may be open to listening to your company's story. Even if your company is not covered by a bank or analyst, it is still worth reaching out to try and secure an invitation to conferences the analyst's firm hosts. Some analysts will be able to offer a spot at the conference for meetings only to companies they do not cover.

It is often difficult, if not impossible, to gain sell-side equity research if you are not a client of a bank, you may want to consider paid-for equity research. If your company has little or no coverage, a good option is to obtain paid-for research. Though some believe that paid-for research is not advisable, we disagree. Investing in paid-research at this early stage can be considered a solid investment, especially if you do not have any sell-side coverage.

Paid-for equity research generally has very broad distribution to retail investors and a digital reach that can amplify company messages far more broadly than press releases, websites, or direct outreach. The research analysts often come as seasoned analysts that left larger banks, and they are often willing to spend the time with management to get the story right.

Many IROs do not realize how massive the retail investor pool is. Also retail investors cannot access any bank research that is only for bank clients to use. To reach the users of Yahoo! Finance and similar, it may be worth an investment in at least one paid-for research company. They will provide an initiation report as well as a financial model that is key to helping set a valuation for your company.

There are several highly reputable sponsored research companies that can help raise the visibility of your company. There are many others available as well and it is worth researching providers in this area for high quality analysts that cover your sector for a fee.

Even more traditional banks are now offering paid-for research to augment their sponsored research offerings. Paid-for research is very expensive, but when compared to the potential impact on market capitalization, an annual fee of $25,000 to $50,000 might be worth it.

If your company is contemplating a capital raise, sell-side coverage can also be a way to provide support ahead of and/or following a raise. It is important to do your research in advance in selecting a bank that knows and has the depth of experience in your sector, is appropriate for your size, and has an analyst in your sector with a solid reputation. Ensure to research the analyst in advance to see which companies they cover and if it might be appropriate coverage for your firm.

ONE AREA WHERE ANALYSTS CAN HELP IS IDENTIFYING THE CAPITAL PEER GROUP AND HELPING SET A REASONABLE VALUATION FOR THE COMPANY.

Understanding Relative Valuation

One area where analysts can help is identifying the capital peer group and helping set a reasonable valuation for the company. They can provide an external point of view of how your company should be valued.

For example, your sector valuations may be based on a multiple of earnings, multiple of revenue, a multiple of EBITDA, or a combination of these. Other sector valuations, such as for biotech, can be based on a discounted cash flow. Be careful to ensure the analyst really understands the value drivers of the company before deriving their valuation, and closely monitor this understanding based on their published analysis.

Conferences and Roadshows

Conferences can be an excellent way to gain exposure to high-quality investors and raise your company's visibility. However, given that conferences may take up a large portion of your IR budget, it is important to do your research ahead of time to prioritize and target the preferred market cap focused conferences in your sector where you will get the most value.

At many of these conferences, you can try to negotiate a lower fee if the company is only taking one-to-one meetings and not presenting.

While presenting at a conference is ideal, it is still worthwhile to attend a high-quality market cap focused conference for the one-to-one meetings, as you will be able to cultivate high-quality investors. Look to see which conferences would suit your equity best, and check to see which conferences your peers attend. If you have sell-side coverage, be sure to attend all the conferences offered by the analyst.

Some of the conferences we have had good success with include Planet Microcap, Investor Summit, LG Micro, OTC Virtual Conferences, and even smaller sell-side banks. More conferences are virtual now so travel costs can often be reduced.

Financial Media

Financial media is another effective tool that can be leveraged to raise your company's visibility. Many media outlets offer various paid editorial, video interviews, or mailing list options outside of traditional financial media that can be used effectively. In addition, these materials can extend reach by being posted on your company's website and social media channels.

Again, it is important to research the offerings to make sure there is an appropriate fit for your objectives, and to ensure the vendor will provide you with meaningful metrics on the effectiveness of the program.

We have worked with authors of Seeking Alpha and other publications to successfully raise visibility amongst retail investors. Similar to sell-side equity research, your relationship with financial media needs to be carefully managed.

Leverage Your Trading Platform

Finally, your trading platform often has opportunities you can leverage. NYSE, Nasdaq, OTC, TSX and TSX.V all have opportunities for companies to do executive interviews, podcasts and opening/closing ceremonies or other opportunities to raise company visibility. Check with your exchange or trading platform to see what they offer for free and for a fee.

Once you have materials such as videos and images, you can leverage this through social media on LinkedIn and Twitter. Be sure to use your $cash tag and #hash tags for investor-related postings. Be careful not to release material non-public information by social media. That type of news should first be disseminated by traditional means such as an SEC filing or press release.

BUILDING A STRATEGY WITH STEADY STRONG GROWTH, BACKED BY SOLID FUNDAMENTALS AND A COHESIVE AND MEASURED IR PLAN BUILDS THE STATURE OF YOUR COMPANY IN THE CAPITAL MARKETS.

Measuring Results

It is important to track all your activities and measure the results. This can be done informally or formally. Metrics that should be tracked aside from valuation and stock price performance may include volume trends, shareholder ownership, sell-side analyst coverage, accuracy of earnings estimates, investment recommendations, IR activities (number of meetings, roadshows, conferences), enterprise value creation, and relative valuation compared to your capital peers. What is measured can be managed.

Constantly evolve and improve your plan as your company and sector evolves. Leverage your vendors and service providers and ask for metrics on marketing activities so you can see what is working and what is not and adjust your plan from there.

A Long Game

Building a strategy with steady strong growth, backed by solid fundamentals and a cohesive and measured IR plan, builds the stature of your company in the capital markets.

It is important to recognize that it is all about the long game – not a sprint – and will take time, which every management team and Board needs to appreciate. IR

Laura Kiernan, IRC, Kelley Stamm, and Conor Dunleavy are part of the team at High Touch Investor Relations (HTIR), a boutique IR firm based in New York; lkiernan@htir.net; kstamm@htir.net; cdunleavy@htir.net.