

SMALL IS BEAUTIFUL

Communicating to markets requires very different skills when you're outside the ASX 200.

By Domini Stuart



There are good reasons why investors think twice about betting on small cap companies: they're considered to be higher risk investments; they may not have a reassuringly-long track record; and, there can also be problems around liquidity. It's little wonder if small caps struggle to attract investor interest in this highly-competitive space. Yet many small caps thrive and grow – and investor relations (IR) professionals should understand the secrets of those who succeed.

Learning on the job

Most small caps have no choice but to handle their own investor relations. "In the very early days we approached an IR firm for advice," says Tor McCaul, managing director of Comet Ridge (ASX:COI), a Brisbane-based energy company which focuses on coal seam gas exploration and appraisal.

"Then cost constraints meant that, for the next five or six years, we did all the work ourselves, learning as we went along. It's mostly been a job for the managing director and chief financial officer but the board has also played an important role for us, particularly as some of our non-executive directors have been through this process before."

Many of Comet Ridge's investors are either institutions or high net worth individuals working through a broker.

"When we were smaller we didn't have many institutions on our register but, as we've grown over the last 12 months or so, we've seen a lot more come on board," says McCaul. "Our institutional base is largely from Sydney and Melbourne and, while we might only get to meet individual institutions once or twice a year, we've found that's enough to keep them engaged and up to date. When we raised money last week we had a few big institutions invest for the first time."

McCaul also stays in touch with brokers, who often arrange for him to meet a group of their clients. He takes time to catch up with journalists who are interested in the space and he also emails information to subscribers including shareholders, potential investors, journalists and brokers.

"One thing we've learned is to limit our communication to when we have something interesting to say," he says. "People want substance – a lot more than just your brand and logo."

The company's growth to a market cap approaching \$250 million has triggered a new approach. "We still don't believe we can justify the cost of a full-time IR specialist but we're getting professional advice on transitioning to a more structured IR program," says McCaul. "Our share price has risen from five cents to 35 cents

Comet Ridge's MD Tor McCaul (left) and chair James McKay (right)

over the past couple of years and we feel we've reached the point where IR needs to be integral to our strategy rather than something we do when we can find time."

Starting early

Opthea (ASX:OPT) is a biotechnology company in the process of developing a therapy to treat eye diseases that cause severe loss of vision. "We have been attracting interest from investors in both Australia and the US so we decided to engage IR firms in both countries to help with introductions," says Megan Baldwin, CEO and managing director.

"That's quite an expensive undertaking. You need to be able to cover the costs and, when you're juggling limited resources, you also need to feel confident you're getting good returns on your investment – that you're spending your money wisely."

Baldwin presents at conferences, hosts events, dinners and forums, holds one-on-one meetings and answers individual queries by email or over the phone.

"Some of these things require considerable time and money and this can be challenging when they don't appear

to be having an impact,” she says. “But we’ve learned to accept that the benefits of investor outreach can be small and incremental. Potential investors may need to hear the message three or four times before they fully understand what you’re doing and feel confident you’re delivering on your promises. People also like to receive information in different ways, so it’s important to be flexible.”

Where possible, she likes to engage with potential investors early so they can get to know the company, build a relationship and gain confidence in its ability to deliver.

“The problem is that if you’re at an early stage of the development cycle you won’t have the benefit of a long track record,” she says. “You just have to keep going out there and doing whatever it takes to increase your network. And, certainly in biotech, you need to be talking to investors who are prepared to take a longer-term view.”

A restructure and recapitalisation in 2014 has helped Opthea to attract large institutional funds from around the world.

“We cleaned up our pipeline so our story was very clear to our investors,” says Baldwin. “Now there are fewer distractions within the company it’s easier to articulate our plans for our drug, what their investment funds would bring to the company and how we would use those funds to move our program forward.”

An important part of the role

Matt Brown still considers IR to be an important aspect of his role as chief financial officer of LiveTiles (ASX:LVT), which provides cloud-based intelligent workplace software for the commercial, government and education markets.

“In my experience many investors prefer to engage directly with senior management,” he says. “Even if we could have afforded someone in a dedicated role I think we would have chosen to manage IR ourselves.”

From the outset, LiveTiles’ strategy was to focus on high-quality, like-minded



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institutional investors with a medium- to long-term outlook.

“We’ve been very targeted since we initially listed, when our market cap was much lower than it is today,” says Brown. “I think we gained attention by demonstrating through our growth and progress that we’re at the high-quality end of the spectrum in the small cap space. We also chose to work with brokers who have an institutional rather than a retail client base as this lines up with the types of investors we’re aiming to attract.”

Brown participates in two or three formal investor road shows each year but prefers talking face to face.

“Our CEO is based in New York but we make an effort to get together with investors in Australia at least a couple of times a year,” he says. “We also make ourselves available for ad hoc meetings and to answer follow-up questions by phone.”

In the early days, lack of liquidity posed a problem. “We started out with a market cap of \$50 million to \$60 million and about 55 per cent of shares were held by our co-founders,” says Brown.

“Some very positive potential investors were limited by liquidity thresholds. But there was nothing we could do about it given our founders had a lot of skin in the game. They still do but, as our valuation has increased over time, we’ve raised more capital and attracted more attention from the investor community. So, liquidity is continually becoming less of a challenge.”

Brown also reiterates the need for patience. “We’d been talking to some

of the high-quality fund managers who invested in our latest capital raise for as long as three years,” he says. “You need to be prepared to develop relationships with investors and give them time to follow your progress and do their work.”

With a current market cap of around \$300 million, LiveTiles is starting to gain traction in the US. “We’re a software-as-a-service company and expertise in this area is a lot deeper in the US than Australia,” says Brown. “It’s early days but we have already been approached by a number of US investors.”

Clear communication

Communicating complex and technical information to non-specialists is one challenge many small caps have in common.

“When you’re excited about a product or service it’s easy to fall into the trap of trying to say everything at once,” says Baldwin. “You’re going to be a lot more attractive to investors if you can clearly and concisely articulate the work you do, your value proposition and your business plan.”

Brown often includes live demonstrations in his presentations.

“We’ve found investors who actually see the software in action have a better understanding of the product and why people buy it,” he says.

There’s no escaping the need to provide the detailed information to meet disclosure obligations but, as McCaul points out, what investors really want is a couple of simple sentences explaining why they should invest in your company.

“At its most basic, that’s what IR is about,” he says. “You’re aiming to give interested people relevant insights into your business in a clear and meaningful way.”

That’s true for both small and large caps, it’s just that the smaller businesses have to achieve the same outcome with fewer resources. In a market such as Australia with a very long tail of small caps, it’s a challenge the IR community well understands.

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