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- *Investor Relations*

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The Small Cap Challenge: building visibility

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At a recent CIRI (Canadian Investor Relations Institute) luncheon, I heard a sell-side analyst suggest that the easiest way for a **small-cap** company to build extensive research coverage was to become a rapidly growing, large cap that was included in the S&P Index. He was being facetious; unfortunately, he was also right.

It is extremely difficult for micro- and small-cap issuers to gain a profile with professional investors. The falling market has reduced share prices – in some cases to below a brokerage house's threshold for recommendations, and in extreme cases to below minimum listing requirements. It's a tough, competitive environment to be in – with no sign of improvement on the horizon.

So what can the small-cap Investor Relations Officer do to build support?

First and foremost, if you can't get the institutional investors to pay attention because you're too small, then you have to concentrate on the retail investor. Building up the retail side will hopefully improve your liquidity, create some buzz, and ultimately attract the attention of the "buy-side" (i.e. large investors).

Reaching for retail

Fueled by Internet-based research and online investing, retail investors are a growing sector of the investment community. Twenty years ago, only 13 percent of adult Canadians owned

shares. Now, approximately 50 percent hold shares either directly or through pension plans or RRSPs. That is a huge market to tap into, but because it is so fragmented, it can also be a relatively expensive market to reach and service.

Here are some suggestions for reaching the retail investor:

1. **Quarterly Conference Calls** – Many micro- and small-cap companies assume that since they don't have any analyst coverage or large institutional following they don't need to hold conference calls. Wrong. Retail investors love conference calls, especially if it gives them an opportunity to pose questions directly to management. Hosting a call or webcast aimed at individual retail investors demonstrates an openness that will be appreciated and will translate into investor interest.
2. **Broker meetings** – If your stock is trading at a respectable level – i.e. if it can be bought on margin – then try to interest some of the financial institutions you have relationships with in arranging a broker luncheon. For the cost of food and coffee, you can have the attention of a roomful of brokers for an hour. Make sure you have an Investor Fact Sheet ready - brokers love fact sheets, because they can use them for quick reference when they're talking on the phone to their clients – or they just fax or email them out.

When seeking broker meetings, think locally or concentrate on geographic areas where your products and services are best known. Brand name recognition works with investors as well as consumers.

3. **Media** – Media coverage in trade magazines or local newspapers is a starting point for building some buzz. Retail investors are especially motivated by positive, credible, media stories. Reprints of the articles can also be included in the investor kit you use for mailings or presentations.

With some companies, especially micro caps and

new issuers, it's arguably better to spend money and resources on media relations, rather than investor relations at first. Then, once you've built up some media coverage, shift time and resources to IR.

4. **Investment Club Meetings** – There are investment clubs all over the world and they welcome presentations from small-cap issuers. Again, think locally. Maybe you can offer a plant or facilities tour.

5. **Paid coverage** – Paid coverage is a contentious issue. We will probably see more and more "independent" research bought and paid for by the issuer. The debate hinges on the question of how objective coverage can be if sponsored directly by the company that's covered. The "independent" research firms argue that their work is no less objective than research published by a sell-side analyst who receives at least part of his/her remuneration from his firm's investment bankers – the same bankers doing corporate finance work for the covered company. So when does "research" become more than just a sales document? It's an old debate, and one you will have to resolve for yourself. It's also another "big ticket" item. Paid research can cost from \$10,000 to \$25,000.

6. **Paid interviews** – While the daily press and television are a hard nut to crack, there are some pay-for-play venues worth considering. For instance, Canada NewsWire produces a daily half-hour business radio show called "Canada's Business Report" that reaches a weekly radio audience of 200,000 and an online audience of 250,000, both live and archived. The show features "Company Profile" segments – five-minute interviews with senior executives. It is relatively inexpensive and the interview is "friendly." The interviews are posted on both www.newswire.ca and www.investorcanada.com.

[Wall Street Reporter](#) is another popular venue for paid interviews. The site averages 4.5 million hits per month and features about 40-60 new

CEO interviews each day. The interviews are streamed in audio or video and are retransmitted on the [Multex](#) site. Reprints, for inclusion in your investor kit, are also available.

7. **Online** – The Internet is your best vehicle for reaching retail investors. Keeping you IR website comprehensive and up-to-date is the first priority. By "comprehensive", we mean that you should utilize the web features that investors have come to expect: webcasts, archives of conference calls, online investor presentations, email alerts for press releases and events, online forms for submitting questions to the IR department, fact sheets, historical financials, background info on sector/industry trends, industry glossaries, stock price calculators, and comparative charting.

Also, do a periodic check of the various investor portals that dot the Internet. Make sure that the information they display about your company is accurate.

Pitching the big leagues

While all this retail activity is going on, don't completely ignore institutional investors. You should be conducting one-on-ones twice a year with your major shareholders -- keeping the lines of communication open. These meetings can also provide an opportunity to look for referrals. Leverage your relationship with your existing shareholders and seek their advice on who else you should present to.

Financial industry conferences are a great way to present yourself to new investors. Usually themed by sector, they are often sponsored by brokerage houses. Pursue the investment bankers who did your last corporate financing. They should be able to place you in any suitable conferences their company has coming up. Other opportunities exist at commercially run "investor fairs". For a fee, companies can do a scheduled 20-minute presentation with 10 minutes of Q&A, or an informal break-out session.

There are analyst societies in Toronto, Montreal, Vancouver, Calgary, Edmonton, Quebec City, and Winnipeg. Along with their professional development activities, they all hold breakfast and luncheon events featuring corporate presentations. Although the issuer pays a modest fee to present, there is a screening process. You have to pitch your

corporate attributes and prove that your presentation would be of interest to their membership. In Toronto, the TSFA (Toronto Society of Financial Analysts) regularly draws 20-40 investment professionals – analysts, portfolio managers, and fund managers – to their small-cap breakfasts. (Their luncheons, which draw audiences of 100+, are for large caps.)

Small caps come go and out of favour with investors. You can do all the right things, plan and execute a flawless IR program, and still have no **apparent** impact. Gaining the confidence of investors takes patience as well as hard work. Knowing where to tell your story can help you generate some buzz.

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Small cap: The "cap" refers to "market capitalization", which is calculated by multiplying the number of outstanding shares by the price per share. The definition of "small cap" varies, but usually falls somewhere between \$300 million and \$2 billion. [back](#)



Paul Caulfield is a communications consultant with an eclectic background as an award-winning television producer, a managing editor, and a writer. He was the author of the ground-breaking report **Under Construction: A Survey of Canada's Information Highway** (1995). He currently provides freelance consulting services through his company, [Mirus Communications Inc.](#)

As senior investor relations consultant, Paul is a hands-on practitioner producing corporate speeches, press releases, IR websites, annual reports, and investor presentations. He has provided financial communications and strategic planning to a number of small- and large-cap Canadian companies.

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ISSN 1499-0806