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Small caps with big ideas

Craig McGuire - 20 Sep 2004 00:00

Small and midsize companies are using PR to attract attention.

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Until Comsys Holding recently set in motion a play to buy competitor Venturi Partners, the Houston-based IT staffing company was not exactly a household name. Like many small and midsize US companies, Comsys has struggled to draw attention from mainstream media and Wall Street analysts. Journalists today simply have too many larger companies to cover, let alone devote valuable copy space to the smaller players. Meanwhile, the analyst community continues to dwindle as investment banks shed whole chunks of their advisory businesses to avoid any perceptions of conflicts of interest. So with the future of Comsys hinging on the outcome of this deal, Comsys' communications pros decided it was time for a more aggressive approach to PR. "We are a private company, so the coverage among analysts is sparse, at best," says Natalie Ray, Comsys' manager of corporate communications. "As for the media, with the exception of some coverage in trade magazines, when it came to major industry and business media, we were usually not on the radar." Following an intense three-week planning period, Comsys launched an integrated program targeting different audiences - engaged once the deal was announced on July 20 - that included IR, employee relations, and a relentless media blitz. "IT staffing happens to be a topical issue right now, so we fed off that trend," Ray says. "But we first had to educate journalists about who we were, what we do, and why this story matters to the industry." Subsequently, the story was receiving relatively moderate coverage, until it was picked up by the Associated Press. As a result, the deal was covered in more than 100 business, technology, and financial news media outlets, including ABC News, *The Wall Street Journal*'s website, Bloomberg, Dow Jones, *Barron's* Online, Forbes.com, *The New York Times*' website, and many others. **Getting on the business pages** Comsys' successful campaign demonstrates that there is room for midsize companies on the business pages. However, you need not always pursue something as drastic as an M&A event to do it. Undeniably, small to midsize companies today face formidable challenges in attracting analyst coverage in the wake of the corporate accounting scandals, severe regulatory backlash, and investor uprisings of recent years. This is the result of the move, made under the weight of intense pressure, that 10 of the top US investment firms made when they settled enforcement actions with New York State Attorney General Elliot Spitzer involving conflicts of interest between their research and investment banking arms. As a result, many of these houses simply eliminated scores of analyst positions and/or consolidated coverage among the remaining ones. With fewer analysts on the Street, fewer firms could be covered, leaving smaller ones out of the coverage loop. "After the Spitzer settlement, investment banking could no longer overtly be the driver of analyst coverage," says Len Rosenthal, professor of finance at Bentley College. "That means that commissions would have to pay for analyst compensation. Since small-cap stocks typically have fewer shares outstanding, the volume is less, so not enough commission income is generated." With half the Nasdaq-listed companies and a quarter of the Big Board companies lacking any analyst coverage, the challenge is considerable, but not impossible, says Donni Case, president of the Financial Relations Board. Understand that analysts are less likely to cover a smaller company if they have to work as hard to get up to speed on that stock. "We have a client that was once a $2 stock with a fairly complicated story and no analyst coverage," Case says. "We worked with management to articulate the story for the sell side and establish performance milestones and financial benchmarks. Then we took them on an extensive road show. Today, that company has coverage from seven analysts. It was a huge commitment on the part of management, but the objective was achieved and the stock climbed to over $20. Now that company is in an entirely new league." Today, offering small to midsize companies outsourced services to manage media relations and drum up support among analysts is the "bread and butter" of agencies such as Ashton Partners, says Christian Hodges, principal, co-founder, and president. "Most small firms do not have an in-house IR professional, or perhaps they only have an administrative person," Hodges says. "This enables us to focus our efforts initially on outsourced IR, whereby we fulfill the role of the IR officer for those companies. As the companies mature and begin to think more strategically about IR, we support their targeting efforts and provide strategic counsel on board-level issues." Therefore, small companies are more likely to cycle through the whole spectrum of an agency's services, as opposed to larger companies that have an internal IR presence and use counsel for special projects or major issues. However, Wall Street exposure is only half the battle, especially among small to midsize companies that are not publicly traded. Telling your story effectively When it comes to pitching the media, a company must be able to tell its story deftly and compellingly, says Michael Schneider, PR director at The Cherenson Group in Livingston, NJ. "A small scrappy company can get big headlines if the story is compelling, interesting, timely, or innovative," says Schneider, who also teaches corporate relations at Fairleigh Dickinson University. "Smaller companies can be more nimble and are able to react to breaking news and faster deadlines. [They] can also provide more open access to senior management if they are hungry for coverage and exposure." Meanwhile, it's not the size of the client, but the size of the story that matters, says Kristi Hedges, co-founder and principal of The SheaHedges Group. "It's up to the PR team to demonstrate how this company fits into the bigger picture and why it is relevant for readers," Hedges says. "For instance, smaller companies may be competing in a space dominated by larger, publicly traded competitors. In these cases, it's best to pitch from a David-and-Goliath angle, but only if the company is able to demonstrate success." New techniques and technological tools are also leveling the playing field. "A large number of small and midsize companies [use PR Newswire] to reach diverse audiences," says Michelle Savage, VP of IR services at PR Newswire. "For instance, we see more and more companies using audio and video web-based services to create and host more dynamic events." Some companies desperate for coverage have opted to actually hire reputable consultant firms to issue paid research reports to the investment community, Savage says. "We're not really big fans of paid research because it has the potential to undermine your credibility - and your credibility is everything with Wall Street," says Matt Clawson, EVP of IR at Allen & Caron. "But if you decide to commission paid research, I strongly advise that it does not include any buy or sell recommendations. [That] will really destroy any credibility the report has." Perhaps the most challenging aspect of providing communications services for small and midsize clients is managing expectations. "Most CEOs genuinely believe their stories should be on the front page of The Wall Street Journal," Clawson says. "So, you have to be very straightforward and explain that until you actually do cure cancer, you really need to have reasonable expectations about getting in the *Journal* or [*The New York] Times*." **Counseling the counselors** Providing financial communications services to smaller companies comes with its risks. *PRWeek* recently discussed these risks with IR expert Thomas Taulli. An attorney, financial analyst, and angel investor, Taulli lectures on investing and M&As at the graduate level at USC's Marshall School of Business. **PRWeek:** ***What are some early warning signs that doing IR for a company will be risky?*** **Thomas Taulli:** If a company offers payment exclusively in stock for services, I would avoid this client. First, the company probably does not have cash, which is an obvious problem. Second, taking stock puts an IR/PR professional in a very awkward position. He or she likely has access to insider information. Thus, as the stock price goes up, it is difficult to sell the stock without raising red flags with the SEC. **PRWeek:** ***What else can go wrong?*** **Taulli:** Some companies may be hiring the IR/PR agency to drive up the stock price. It's the pump-and-dump scheme. A telltale sign is if a company has filed an S-8 with the SEC. An S-8 allows a company to transfer free-trading shares to consultants for services. It cannot be used to compensate third parties for PR/IR or capital raises. Unfortunately, it often is used for just this purpose. I think the SEC will crack down on this and has even recently added new rules on the issuances of S-8s. **PRWeek:** ***What kind of language should an IR pro look out for?*** **Taulli:** Definitely watch for certain catch phrases. One is: "The stock is in friendly hands." Then, when you check the company's financials, you see they have over 40 million shares outstanding. Be wary if the CEO talks mostly about driving up the value of the stock. This is a major sign of a pump-and-dump. **PRWeek:** ***What are some things to look for in financial statements?*** **Taulli:** Always check the footnotes. Companies like to bury problems there. One bad sign is if there is litigation with third parties. Perhaps the company does not pay its service providers. Look for the resignation of the company's auditors or law firm. Or, has the company been late with its filings? This is an indication of internal control problems.

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