



The Quoted
Companies Alliance

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Interview with John Pierce, Chief Executive of the Quoted Companies Alliance

As a seasoned company director John Pierce understands the challenges and opportunities faced by smaller listed companies. As the chief executive of the Quoted Companies Alliance (QCA) he now spends his time making sure those companies have a powerful voice on their side.

In good times and bad small cap companies need someone fighting their corner. The constant flow of rules and regulations stemming from Westminster and Brussels requires constant scrutiny. Likewise, the specific technical issues encountered by smaller quoted companies often needs some heavy-hitting attention.

In the nine years since Pierce joined the QCA, he has rebranded and re-launched the organisation and put together a formidable artillery of technical committees comprising the great and the good of the financial and advisory communities.

As a result the QCA now punches well above its weight and has earned itself a reputation for effective lobbying and raising issues for the companies it represents.

Pierce previously headed West Country – and now AIM listed – bed company, Airsprung Furniture Group. An accountant by training, he later moved into industry and built a network of contacts that eventually led him to head up the QCA's predecessor organisation nine years ago

John, tell me about what your plans were for the QCA?

Well, the organisation was known as CISCO back in the nineties, which was the City Group for Small Companies. I knew of them because I'd enrolled Airsprung Furniture Group as a member, mainly because they were doing some good stuff and being quite effective in the way they were lobbying and making known particular issues.

I kept in touch with my predecessor mainly because I wanted to see if there were companies wanting to come off the market that we could have acquired. But an opportunity came up here and that's when I joined.

My first job was to change the name of the group; we took the opportunity to rebrand and re-launch the organisation and it has been an upward progression since then. We have grown the team slowly over time and grown the technical committees and our general workload and influence. It has been a really good few years.

I have been able to call on my experience of running a company in not only running

this organisation but also addressing the technical issues and areas that are important, I believe, to the management of smaller quoted companies.

And what are the main issues affecting these companies?

The problems can be neatly wrapped up in the old phrase red tape. It's the regulation issue that's near the top of the list of things most people would like to change. That covers lots of different areas, particularly for smaller quoted companies. I think the pressures of the market are a major concern – I think a lot of small companies go wrong by taking too much notice on a frequent basis of their share price.

The wisest thing said to me by a chairman was "forget about the share price, the market has its own requirements, its own agenda, just get on and run the business, make it profitable and meet the expectations that the market has, but don't dive into the newspaper every day and look at the share price."

Having said that, I think you can do a lot through sensible use of investor relations. If you've got some good results and you've got a good trend going then make sure the market knows about it and understands it. You can influence things but you shouldn't get too carried away.

How desirable is it to even be a small cap quoted company these days?

There will always be a drive for companies to become publicly-listed. In the past we have criticised the number of very small companies that have come to the market that really shouldn't be there. For some, their market value is really too small to sustain the high costs of regulation, communicating with the market and the costs of the nominated advisors (nomads) and brokers and all the other add-ons.

We're quite critical of the nomad community because some of them do not apply the suitability test as rigorously as they should do. It is their job to make sure a company is suitable for a public market and part of that suitability test, in our view, is the fact that it should be a certain size and substance. It should also have a business plan and strategy that ensures that it is going to have good growth for at least a four or five year period – and not just come to the market, get a bit of value and just sit there and gradually wither on the vine.

I don't think that is any fault of the market as such, I think it is great that we have developed a framework that people do aspire to get in to. We are the envy of a lot of Continental European countries, particularly the French, Germans and Italians, that AIM has been such a success when they themselves have been trying things which clearly haven't worked.

One of AIM's strengths is its diversity now, which enabled it to withstand the dotcom bubble whereas that virtually destroyed the German small-cap market because it had been very focused on high-tech companies. I think its breadth will get it through this next recession. There are going to be a lot of casualties but there are also businesses of substance in mature markets which will carry on.

How reasonable do you think the balance of regulation is for small caps?

AIM has a lighter touch of regulation but nevertheless it is still reasonably well regulated, which is why we rebutted any criticism from the States a year or so back. By and large I think the regulation is okay, although we're still battling with a few

hangovers from the introduction of the big financial services action that came out of Brussels – starting in 2002 with the prospectus directive.

I think the main thing that small caps can complain about is the exorbitant fees of their professional hand-holders and nomads. It does become a burden and this is where companies have to recognise before they come to the market that unless they are going to make use of the market and issue more paper and go on the acquisition trail there is no point in them being there.

The market is there to do its job but it is not there to allow directors to lead a fat cat existence and think they can keep out of the public spotlight. Once you are on the market it is a totally different ball game and it comes as quite a shock to a board which had perhaps sleep-walked into it thinking it would be nice to have some shares to sell, without thinking of the responsibility that goes with it.

What about the relationships between companies and shareholders?

Like all things, some are pretty good at it, some people are natural communicators and some chairmen and chief executives are very comfortable talking to the press and their investors. Others keep their heads down. But you have also got to look at what sort of advice they are getting – whether they use financial PR or whether they try to do it themselves.

Some firms of brokers and nomads are better than others at actually putting companies in touch with fund managers and potential investors. We always tell our members to challenge their brokers and nomads if they don't think they are getting good service from them.

At the moment nomads are desperate to keep their client lists and there is going to be a big reduction in the number of nomads out there because the IPO market has dried up. I think it will be like that for at least another 18 months or so and a lot of nomads will either go to the wall or amalgamate. There is going to be intense competition and now is the time for companies to shop around and make sure that they are dealing with the best and getting the best value.

Companies have two jobs and the first is to keep hold of current shareholders and maintain loyalty by communicating with them properly. But they also need to be lining up potential shareholders for the future, encouraging interest in the business and keeping those people informed so that when there are shares for sale in the market there are potential buyers in the wings.

Companies need to look upon investor relations as they would marketing their own products – because they are marketing the company to the market. They need to be maintaining a profile, not keeping their heads down. I think there is a tendency to do that at the moment particularly because there is a lot of bad news about. But I think companies are admired for being honest about their results and about how they see the future. In the short term their share price will probably suffer, but people do remember these things.

It's about building confidence in investors in that business over time, because no-one is going to jump in and invest overnight. Investors usually like to study a business for a year or 18 months before they put their money there – but you can never be too early in making contact with them.

How do you expect event to unfold for small-cap companies during the next year?

The real problem is liquidity and getting the banks and building societies to start working again, to put liquidity into the system so companies have confidence that if they are going through a dicey period then they can see that their overdraft will increase if they need it to.

If it means the Government has to nationalise banks then so be it, because it's their money that the banks have got now. I think the banks are being very cavalier in taking our money but not changing their attitudes towards lending back to business. We're in pretty desperate times and I think they call for desperate measures and the banks will only have themselves to blame if it does come to that.