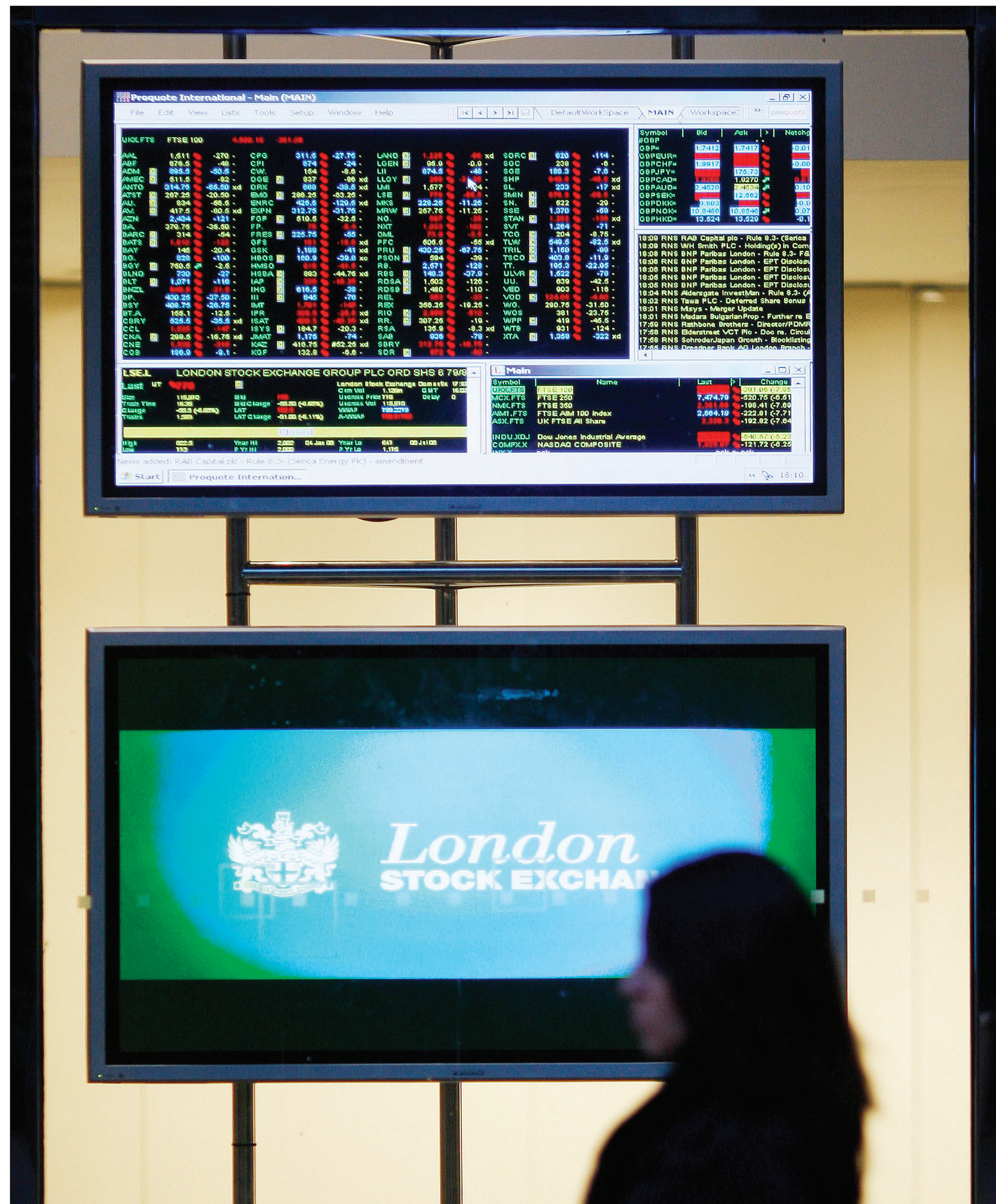
MID-MARKET COMPANIES

FINANCIAL TIMES SPECIAL REPORT | Friday March 11 2011

www.ft.com/mid-market-companies-2011 | twitter.com/ftreports

Groups look overseas for growth



The London Stock Exchange, where Domino Printing Sciences has been stealing the limelight Reuters

For many, the key to recovery has been exposure to emerging markets, says Oliver Ralph

Mention the name Domino to an investor in small and mid-cap companies, and they are likely to start thinking about pizzas.

Shares in Domino's Pizza have become as common a sight on brokers' buy lists in recent years as its delivery scooters have become on Britain's streets.

But this year, it's another Domino that is stealing the limelight. Domino Printing Sciences, which makes the coding and labelling machinery used for bar codes and best-before dates, has been listed on the stock market for 25 years.

However, the printing technology world has never set the London market alight, and the company has attracted only a modest amount of City interest.

This year, though, Domino Printing has scooped the coveted Company of the Year Award at the PLC Awards, which seek to recognise the achievements of the UK's small and mid-cap companies (defined as main-market companies outside the FTSE 100).

The company, along with the other award winners, was chosen by a combination of a panel of City fund managers and brokers, and votes from FT readers.

Domino's leap into the limelight says much about the state of the UK mid-cap market in 2010, and its story is typical of those companies that did well. In the year to October, its pre-tax profits rose 86 per cent to £52.1m on sales that were up 17 per cent. The company lifted its dividend by 20 per cent, reported increased cash balances and said it was investing more in research and development.

The company concluded: "While economic concerns remain in western Europe, our strength in the fastest growing regions of the world, China, India, South America and eastern Europe, gives us confidence as we enter 2011."

These themes – rising profits, strengthened balance sheets and renewed investment – have been common among mid-market companies over the past 12 months.

Engineering and manufacturing companies have been at the forefront. Last year demonstrated that not only that the UK still has a vibrant manufacturing sector, but that many of the companies are world leaders in their specific niches. Those that came through the recession in good shape powered ahead in 2010.

> The proportion of business from the UK was 65 per cent five years ago but is 53 per cent now

Weir, the Glasgow-based manufacturer of parts for the oil and gas sector, was the most spectacular example. Rising demand for its products was reflected in a rising share price during the year – it increased by more than 150 per cent between January and December, pushing the company into the FTSE 100.

But it was not the only example in the industrial sector. Renishaw, a Gloucestershire-based maker of precision measurement systems, increased its pre-tax profits fivefold in the six months to December, while Cookson, a specialist in industrial ceramics and electronics, moved from a £21m loss to a £189m profit in the full year on a 30 per cent increase in sales.

For many of these companies, rising demand from elsewhere have been making efforts to take advantage of growth in Asia and beyond.

"Overseas growth is something no company can afford to ignore," says Peter Tracey, head of corporate broking at Espirito Santo Investment Bank.

Companies appear to agree. According to a recent survey of FTSE 250 companies and their advisers by PwC, the proportion of business coming from the UK has fallen from 65 per cent five years ago to 53 per cent today. It's expected to fall to about 47 per cent in 5 years time.

Recent merger and acquisition activity across the market supports these findings, with companies increasingly directing their firepower toward emerging markets.

Last November, Thomas Cook expanded in Russia through the acquisition of a majority stake in Intourist, once the Communist government's travel agency but now profiting from sending wealthy Russian tourists around the world. United Business Media last month announced four transactions in a day – it sold print publications in the UK and France, and acquired two exhibition businesses geared towards the growing

Continued on Page 2

Award winners

Company of the Year (Sponsored by College Hill) **Winner** Domino Printing Sciences. Shortlist: Croda International, Shaftesbury, Weir Group **Page 3**

Entrepreneur of the Year (Sponsored by Evolution Securities) **Winner** Richard Harpin of Homeserve. Shortlist: Rob Cotton of NCC Group, Charles Dunstone of TalkTalk Telecom Group, Matthew Ingle of Howden Joinery Group **Page 2**

New Company of the Year (Sponsored by Seymour Pierce) **Winner** SuperGroup. Shortlist: CPP Group, Flybe Group, Jupiter Fund Management **Page 2**

Fund Manager of the Year (Sponsored by Espirito Santo Investment Bank) BlackRock Smaller Companies Trust **Page 3**

Best Investor Communication (Sponsored by Redleaf Communications) **Winner** The Rank Group. Shortlist: Electrocomponents, Homeserve, Telecity Group **Page 3**

Turnround of the Year (Sponsored by Espirito Santo Investment Bank) **Winner** Volex Group. Shortlist: Avon Rubber, Kofax, Wolfson Microelectronics **Page 4**

Best Performing Share (Sponsored by Espirito Santo Investment Bank) Volex Group **Page 4**

Best Technology (Sponsored by SJ Berwin) **Winner** Renishaw. Shortlist: Oxford Instruments, Victrex, Wolfson Microelectronics **Page 4**

Achievement in Sustainability (Sponsored by PwC) **Winner** DS Smith. Shortlist: Mothercare, Quintain Estates & Development, Telecity Group **Page 4**

www.pwc.co.uk

Building relationships. Creating value.

pwc

Our ambition is to bring real value to all our clients. We're passionate about understanding what's important to them and working with them to achieve it. That's why we've supported the PLC Awards since they began 25 years ago. Find out more about us at www.pwc.co.uk

© 2011 PricewaterhouseCoopers LLP. All rights reserved. "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Leaders show how to grow a business

Entrepreneur of the Year

Building a company from start-up to the top is a rare skill, says **Jonathan Moules**

Businesses change as they grow, so the entrepreneur who can take a company from kitchen table start-up to a multinational company is a rare commodity. One that can then run the company as a publicly quoted business is even rarer still.

It is a point noted by Robert Craven, managing director of The Directors' Centre, which advises owner-managers on how to grow their businesses quickly.

"Very few people are cut out for that kind of leadership," he says.

The UK has been seen as a less entrepreneurial nation than countries such as the US, because it has lacked the high-profile founders who take their businesses to great heights.

That is no longer so much the case, as several ambitious British entrepreneurs have come through the ranks.

One of those is **Rob Cotton**, chief executive of NCC Group, a computer security business, who is shortlisted in the Entrepreneur of the Year category.

He has described his business as one of the neglected army of mid-sized operators that drive the regional economy. "We have not had any support for our activities," he said. "If we were the proverbial one man and his dog operation, we would be funded for the dog."

Mr Cotton is clearly not one to sit around and mope, and his Manchester-based IT services business, whose clients include Vodafone, the BBC and National Grid, has gone from strength to strength under his guidance.

In the past year, Mr Cotton has taken the company from Aim, a sub-market of the London Stock Exchange, to a full listing on the main UK exchange and achieved revenue growth of 49 per cent on a profit increase of 25 per cent.

In addition, he has overseen a series of strategic expansion plans, including the acquisition of several complementary businesses in other countries.

NCC has benefited from the growing importance of risk management in the boardroom and the feeling that companies need to protect their data and software assets.

The group has been planning to diversify from the profitable, but slower-growing escrow business, in which copies of proprietary software are sent to NCC as an IT system back-up, and focus on information security and website performance.

The shortlisting of **Charles Dunstone** recognises his achievements in moving from his first big idea, a mobile phone retail chain, into the fundamentally different business of providing telephone and broadband connections.

Mr Dunstone started Carphone Warehouse in 1989 with £6,000 of savings and built it into one of Europe's largest mobile phone retailers, leading it through its main market flotation in 2000.

He was also instrumental in Carphone Warehouse's transactions with US-based electronics retailer Best Buy, including the successful growth of Best Buy Mobile in the US.

Not satisfied with creating a success from one idea, Mr Dunstone went into the highly competitive market for mobile phone, broadband and telephone services with his business TalkTalk.

He developed this business into the second-largest residential broadband provider in the UK, with 4.3m customers, through a combination of technology innovation, dealmaking and clever marketing.

The company's sponsorship of ITV's *X Factor* was a particularly successful subscriber recruitment tool. It also shook up the market for broadband by marketing it as a free service, bundled with a telephone contract.

TalkTalk demerged from Carphone Warehouse early last year and now has a market capitalisation of more than £1.4bn ($2.2bn).

However, Mr Dunstone remains active in both companies. He is chairman of Carphone Warehouse and executive chairman and the largest shareholder of TalkTalk.

Matthew Ingle, chief executive of Howden Joinery Group, is another example of a founder who has built – and remains in charge of – a business affecting people all across the UK.

He set up Howden Joinery in 1995 as a supplier of kitchen units and joinery equipment to small builders. It now has 243,000 registered customers from 489 depots and employs more than 5,500 people.

The financial crisis has had a devastating effect on all sorts of businesses involved in the construction sector.

However, Mr Ingle has successfully steered Howden through the tricky trading conditions, having created a strong entrepreneurial culture in the business.

This month, the company announced a 47 per cent rise in full year profit to £100.9m.

Group revenue increased to £807.9m, from £769.5m last time, with sales at UK depots open more than a year up 3.6 per cent and gross margins rising 3.6 percentage points to 59.8 per cent.

Clearly, not every entrepreneur has the ability to take a company from start-up to something much larger, but these individuals, all shining lights in their sectors, show that it is possible.

Eighteen years ago, Richard Harpin was looking for the next big business idea. Homeserve is now capitalised at £1.5bn

Winner Richard Harpin

Richard Harpin describes himself as a "born entrepreneur". By the age of 20 he had set up five businesses, including a mail-order fishing tackle business that turned to offering the fish hooks as earrings for customers' wives, but Mr Harpin was still not satisfied, writes **Jonathan Moules.**

"I was really looking for the big business idea where I could invent a market that didn't exist," he says.

That opportunity came when Mr Harpin took a consultancy assignment at South Staffordshire Water, a small utility based in the West Midlands, and was asked to come up with a new business selling plumbing services.

What emerged was **Homeserve,** a business, now capitalised at about £1.5bn, selling insurance against domestic emergencies, such as a burst pipe.

The business, which demerged from South Staffordshire Water in 2004, has since expanded into France, Spain, Belgium, Italy and the US, where it operates in more than 21 states.

The thought of providing something that Americans never had before pleases Mr Harpin. "I always thought I would go to America, copy a business idea and bring it back. It is great to know we have done it the other way round."

Now, 18 years after founding Homeserve, Mr Harpin claims that being entrepreneurial is still central to everything his business does.

"I like to think that we are a medium-sized company that will one day become a big-sized company, but I want to remain a company that thinks like a small start-up business would," he says.

"It is about more delegation, but it is equally about leading from the front."

Groups look overseas for growth

Continued from Page 1

Indian middle classes. And according to the PwC survey, 23 per cent of mid-market companies are now looking to China for M&A.

Expansion overseas has not just been through M&A, however. A number of companies have opted for organic growth. Mothercare is one, opening stores in both India and China.

All this activity has been made possible by the improving financial health of mid-market companies. The crises – and emergency fund-raisings – that accompanied the recession are largely over.

Companies have spent the past two years rebuilding their balance sheets and retaining the cash generated through the improved trading situation. "FTSE 250 companies have pretty robust balance sheets," says David Snell, partner at PwC. "Don't underestimate the amount of cash these companies can use to fund growth."

That financial health has also led to rising dividends. According to research from RBS, 47 per cent of companies in the Hoare Govett Smaller Companies Index (excluding investment companies) increased their dividends in 2010. Meanwhile, only 2 per cent of companies omitted their dividends during the year, down from 17 per cent in 2009, while only 7 per cent cut them, down from 18 per cent in 2009.

The rising confidence, improved trading, renewed balance-sheet strength and return to dividend growth have been reflected in share price performances.

Small and mid-cap companies outperformed the wider market in 2010. According to RBS, the Hoare Govett Smaller Companies Index rose by 26.4 per cent in 2010, outperforming the FTSE All-Share by 11.9 per cent.

And yet despite all this renewed confidence and share price performance, not everyone is bullish. Much of the caution surrounds the prospects for the UK economy.

Despite efforts to diversify, many small and mid-cap companies are still solidly UK-based. The full impact of government spending cuts is still to come through, while rising inflation has increased the possibility of a rise in interest rates at some point this year. Companies exposed to government contracts or consumer spending face a tricky time.

Some investors have already been burnt. The collapses last year of Rok and Connaught, two building and maintenance companies, are still fresh in the memory.

Others in the small and mid-cap world face structural challenges, with the internet and the supermarkets combining to put many specialist businesses under pressure.

The result is that companies and their owners are treading carefully. "The vast majority of investors are cautious of what companies are doing," says Scott Evans, head of small and mid-cap equities at Espirito Santo Investment Bank. "They're very cautious of providing companies with funds for investment but they are willing to back a specific investment where they can see an obvious return."

Those returns, says Mr Evans, will determine how investors will assess companies in 2011. "In 2009, investors were willing to refinance businesses. In 2010 there was more willingness to allow companies to go off and invest. 2011 is about asking companies to prove that the returns are there."

Floats demonstrate buoyancy in testing times

New Company of Year

Insurance to aviation, funds to fashion, these contenders have what it takes to succeed, writes **Rod Newing**

Winner SuperGroup

SuperGroup is a fashion retailer offering quality men's and women's clothing and accessories, predominantly for the youth market, writes **Rod Newing**.

Julian Dunkerton, chief executive, helped found the business in 1985. It has 59 Cult and Superdry stores, many of them in university towns, and owns the 77 Breed and SurfCo California brands. There are also 69 Superdry concessions and wholesale operations.

The company sells in 36 countries through distributors, licensees, agents and franchisees and via its websites to more than 70 countries.

SuperGroup was floated in March 2010 at 500p, raising £125m for expansion and valuing the business at £400m. It has since tripled in value.

It was founded to exploit a gap in the market for good quality stylish clothing, with David Beckham and Leonardo DiCaprio as customers. The "urban cool" positioning of its stores is aimed at matching the aspirations of its customers.

"Generating, harnessing and sustaining an entrepreneurial spirit and creative culture within a dynamic and efficient corporate structure have been central to SuperGroup's strategy and success," says Mr Dunkerton.

Unusually, the company does not advertise or market its brands or channels and does not discount, instead depending on word-of-mouth recommendations. "A determined lack of advertising or overt selling has fostered a mystique that has proved compelling," says Mr Dunkerton. "Developing a powerfully theatrical in-store experience has further enhanced the brand's allure."

Retail is going global, with the internet and social networking enabling brands to cross borders easily and become internationally recognised. "What began on a market stall in the early 1980s has become an internationally recognised brand," Mr Dunkerton concludes.

"Our opportunity is global and our ambition is to be global, without compromising the strengths and values that have got us to where we are today."

Superdry clothing, SuperGroup's top brand.

All four shortlisted companies in this category are potential companies of the year but, having joined the market within the past 12 months, they lack the record of accomplishment to be considered for that award.

Nevertheless, they are all well-established private businesses that have demonstrated both growth and management qualities.

They join a market where, after tough times in 2009, investors in the UK's midsized companies were looking for a better performance in 2010. These businesses are more sensitive to the economic environment than their FTSE 100 counterparts – they suffer more in a recession, but recover more quickly as conditions improve.

"The most pronounced change for mid-market companies since the credit crunch, has been the emphasis on cost reduction," says Steve Green, head of corporate business at Zurich Insurance. "Increasing cash flow and reducing working capital and finance have become a critical issue, particularly for those that have relied on bank finance."

CPP Group has more than 30 years of experience in helping customers manage the trials and tribulations of modern life. It provides "life assistance" products and services, including protecting credit and debit cards and personal identity and insuring mobile telephones.

The group's call-centres focus on providing customer assistance during stressful life events, such as loss or theft of a wallet, purse, mobile telephone or keys, as well as support in the event of identity theft. It has more than 10m policyholders in 15 countries across the world, including China.

The company floated in March 2010 at 235p a share and one year on the stock is almost 30 per cent higher with a market capitalisation of more than £500m. Group turnover for 2010 rose 11 per cent to £325.8m.

The company's strategy is to deliver high growth through online sales, offering packaged accounts and focusing on key emerging markets, such as Turkey, India, Mexico and China.

"The life assistance market is large and fast-growing," says Eric Woolley, its chief executive. "As bankable populations grow and plastic card usage increases, anxieties associated with modern crimes such as card fraud or identity theft are as present in Shanghai as they are in London."

Flybe has managed to flourish in a hostile aviation sector that has seen many of its competitors struggle. In 2010, it signed a multibillion-dollar deal for up to 140 new aircraft to support its planned European growth.

"The float had a pretty long gestation, as it was the fulfilment of the wishes of our founder, Jack Walker, who sadly passed away in 2000," explains Jim French, chairman and chief executive.

"Flybe was able to come to the market in December 2010, at a time when floats were being pulled," he adds.

The company managed to keep operations going through severe service disruptions, including Arctic weather conditions. Passenger volumes and annual turnover stayed relatively stable at 7.2m and £570m respectively.

"What has made Flybe such a success over the past few years has been an unbending adherence to a core strategy," says Mr French. "We are a regional airline which flies regional aircraft on high-frequency regional routes, so we don't aim to be a mini-BA or a mini-Ryanair.

"We are the biggest domestic airline in the UK and we will export our business model to continental western Europe, where we believe there is real scope for growth."

Founded more than 20 years ago, **Jupiter Fund Management** operates in the retail mutual fund market. It covers the UK, Europe, Asia and "emerging Europe" markets, as well as themes such as socially responsible investment.

The company floated in June at 165p a share, raising £220m. The launch took place against a challenging backdrop. A number of flotations had been delayed from earlier in the year because of poor sentiment and investors had become highly selective. The share price has nearly doubled since, to a market capitalisation of about £1.5bn.

"It was crucial for us to demonstrate clearly the stability of our business throughout market cycles; and the strength of our investment culture and team," says Edward Bonham Carter, its chief executive.

"It was pleasing to have garnered strong support from institutional and retail investors during the process and in the period since then."

Stuart Counsell, UK managing partner for finance and legal at Deloitte, is seeing a growing sense of optimism among mid-market companies, even more than before the recession.

In the past six months, their attention has switched to an expansionary outlook and gearing up for growth.

"Debt is seen as relatively cheap and corporate balance sheets have been very well looked after in the past two or three years," he says.

"Many mid-market companies are looking overseas to drive top-line growth. If they are not in international markets, there is a good possibility that merger and acquisition activity will come back to establish overseas operations."

Contributors

Oliver Ralph
UK Companies Editor

Jonathan Moules
Enterprise Correspondent

Michael Kavanagh, Courtney Weaver
UK Companies Reporters

Masa Serdarevic
Financial Services Reporter

Andrew Baxter
Senior writer, Special Reports; Commissioning Editor

Rod Newing, Ross Tieman
FT Contributors

Steven Bird
Designer

Andy Mears
Picture Editor

For advertising details, contact:
Robert Grange
Phone +44 020 7873 4418
Fax +44 020 7873 4006
Email: robert.grange@ft.com
or your usual representative

Long-term strategy is key to success

Company of the Year

Ross Tieman says the contenders are united by consistency, innovation, focus and customer ties

If there is one overriding feature that unites the diverse contenders for this year's Company of the Year award, it is that each has prospered by relentlessly focusing on a clear long-term strategy.

Whether battling in global markets, as are **Weir Group**, an engineer, **Croda International**, a speciality chemicals company and **Domino Printing Sciences**, a label printing expert, or building a thriving London property portfolio like **Shaftesbury**, consistency and focus matter.

That is true for management too. Jonathan Lane has been chief executive at Shaftesbury for the past 25 years. Mike Humphrey has given Croda consistent direction since 1999, and Weir's resurgence owes much to the course set by Keith Cochrane since he became chief executive in 2006.

Backed by strong and experienced management teams, and well motivated employees, the contenders have all delivered outstanding returns for shareholders.

Mr Humphrey suggests that a sound strategy, smart people and hard work are necessary foundations. They have helped deliver a decade of unbroken profit increases at the Yorkshire-based chemicals company, which not only achieved £1bn of sales in 2010, but more than doubled pre-tax profits to £192m.

These are the fruit of a 12-year strategy to refocus Croda on markets with inherent growth potential. "We start from the position that we are a marketing company that happens to be in chemicals," Mr Humphrey says.

So Croda applies its expertise in chemicals based on fats and oils to helping manufacturers achieve the qualities they want in consumer or industrial products. Croda's consumer division supplies specialist ingredients for haircare products, Omega3 oils for healthcare customers, and chemicals that carry the treatments devised by crop care manufacturers into growing plants.

Its industrial specialities arm helps paintmakers enhance durability, lubricant manufacturers make "greener" oils, and so on.

Winner Domino Printing Sciences

Domino Printing Sciences, a FTSE 250 company that makes clever machines for labelling packaging, wins the Company of the Year award, writes **Ross Tieman**.

With almost 95 per cent of its record £300m sales in 2010 made outside the UK, and China now its largest market, Domino has ridden the globalisation wave with aplomb.

A 32-year record of revenue growth, with sustained dividend increases since it floated in 1985, confirm, however, that Domino doesn't chase sales at any price. Pre-tax profits were up 86 per cent last year to £52.1m, reflecting a gross margin of 49.7 per cent.

Yes, 2010 was a year of recovery, but Domino had laid the foundations by early restructuring in 2008, and by investing heavily in research and development, says Nigel Bond, group managing director.

The aim was not merely to trim costs, but to integrate companies and technologies that it had acquired so as to create a more coherent range of products with a common operator interface. The ongoing roll-out of these new designs of ink-jet and thermal printers should underpin further growth.

Though the pace may slow after the catch-up in 2010, Domino has worked hard to make its machines more reliable and more affordable Mr Bond says.

Andrew Herbert, the company's finance director, notes that sales of machines account for 40 per cent of revenue; inks and other consumables provide another 33 per cent, with the balance coming from spares and services. So Domino focuses intensely on its customers.

"What we strive to do is have the highest quality, reliability and best value products in the market," says Mr Bond. Secondly, he says, "we have worked hard to ensure we have a good image and reputation for the quality of support we give customers. They are under enormous pressure to be efficient. Customers must know that if they need you, you will be there."

Top quality people are Mr Bond's final ingredient for success, including skilled and wise managers. "We have a management team that has been together for many years, and the senior management team of nine has, collectively 135, years of experience."

Clearly, Domino's 2,150 people know how to succeed in bad times, as well as good.

Domino sells most of its machines for labelling packaging outside the UK, with China now its largest market

Success derives from innovating, with customers, to meet emerging needs. Croda scientists in more than 30 countries work on customer solutions, collaborating with Croda's own centres of excellence, universities, and start-ups via steering groups.

"We believe in open innovation," Mr Humphrey says.

The upshot is a decade of organic sales growth of between 5 and 10 per cent a year, culminating today in plans to expand capacity across a series of plants, while simultaneously raising the dividend and resuming share buy-backs.

Weir Group is another whose refocusing has brought it to the right place, at the right time. Order books at the Glasgow-based engineer are bulging thanks to soaring demand for minerals, oil and gas, and power plants. For Weir makes the high-tech pumps, valves and related equipment needed by miners and drillers to extract and process minerals, and by thermal and nuclear generators to produce electricity.

This place at the sweet spot of the minerals and power cycle did not happen by chance. A decade back, Weir, founded in 1871, was flagging. But a strategic refocus beginning in 2002 saw disposal of underperforming businesses, and reorientation on the three key markets that fuel growth today.

Bolstered by targeted acquisitions by Mr Cochrane, this has driven the steady upward march of revenues, which reached £1.64bn in 2010, up 18 per cent. Pre-tax profits, up from £170m to £277m, again exceeded expectations, putting the company on track to achieve its planned doubling of pre-tax profits between 2009 and 2014. Analysts say the company has ample firepower for further acquisitions.

Buying more properties at sensible prices is also one of the biggest challenges for Shaftesbury. The property company is loved by its shareholders for concentrating its £1.48bn portfolio in some of central London's most celebrated "villages": Chinatown, Covent Garden and the recast Carnaby Street district.

Founded in 1986 and run by Mr Lane ever since, Shaftesbury has not just profited from acquiring more than 500 buildings housing restaurants and bars, shops, offices and homes in these prime West End locations. It has helped transform what were once rundown areas into distinctive districts where people go to shop or have a day or night out.

Sensitive refurbishments and careful selection of tenants to promote Chinatown's Asian feel are among strategies that have delivered excellent returns to shareholders, culminating in a 24 per cent increase in net asset value per share in the year to end-September 2010, to 414p.

Resurgent property values lifted pre-tax profits to £171.9m, after a £58.1m loss in 2009, when the company had to reduce valuations. But stripped of disposals and valuation movements, there was a steady operating profit progression, from £47.7m in 2009 to £49.4m.

With every property within a 15-minute walk, management is attuned to its buildings and their users.

This is another feature that marks out all the winners. Alongside sound financial management, innovation and a focused long-term strategy, the contenders for Company of the Year are all very close to their customers.

In 2011, share performance depends on knowing and providing what customers want, now and in the future.

Shareholders need to be kept well informed

Investor Communication

Transparency and consistency are key, says **Andrew Baxter**

There has probably never been a time when communicating effectively with investors has been so important for senior management at the UK's mid-cap companies – without taking their eyes off running the business, of course.

Richard Davies, chairman of the Investor Relations Society and managing director of RD:IR, an investor relations consultancy, says the investment management landscape has been reshaped in recent years.

"Larger companies are tending to attract relatively more funds, because they are seen as better investments than the smaller businesses," he says. "So smaller businesses have to pedal twice as fast.

"Mid-sized companies are finding it tougher than ever before to get their message out – unless they are 'pop stocks' with great PR and a really exciting story that everybody knows about."

Mr Davies says midsized companies should step up the use of their websites and branding in general. Big companies may have greater resources for this, but the need to use these channels is proportionately higher among their smaller counterparts.

Articulating the investment case clearly, using all the channels available, is important for all companies, but for some mid caps, says Mr Davies, "the strategy may not be as clearly defined, either in the website or other documentation, as it could be".

The shortlisted companies in this category have all shown that they understand these issues and challenges clearly.

Matthew Springett, head of investor relations at **Telecity**, the European data centre operator, says: "We aim to do both the proactive side of investor relations [meeting existing and potential investors] and the website and annual reports to a good standard but also in a co-ordinated fashion."

"As a result, the message is clear, consistent and complementary between these channels of communication." He notes that some investors' first port of call may be the website or accounts, followed by a meeting, while for others it will be the reverse. Hence the need for consistency.

"The core drivers are openness, transparency, relationships and trust, and I think everything else flows from that," Mr Springett says.

Keeping both the proactive and passive channels fresh is another priority, as illustrated by **Electrocomponents**. The distributor of electronics and maintenance products set the tone for the year with a very successful investor day in February, says Simon Boddie, finance director.

"It was almost like speed dating. We split the brokers and analysts into groups of four and then did four sessions of about 15 minutes each. There was a lot of Q&A, and it enabled investors to explore areas of the strategy and get close to the management."

Meanwhile, the corporate website will benefit from innovation on its transactional counterpart, says Mr Boddie. More than half the company's business is conducted over the web.

Accessibility is as important as consistency, says Martin Bennett, chief financial officer of **Homeserve**, the home emergency insurance and repair provider. "We spend a lot of time making sure that – whether it is a webcast or the results presentation itself – investors find it easy to get hold of the information," he says.

Analysts receive particular attention. "Investors are always saying: 'We do like well-briefed analysts who really understand your business'," says Mr Bennett. He calls separately each of the analysts who follow Homeserve whenever the company makes an announcement.

Apart from outsourcing some web development work, all the shortlisted companies run their investor relations effort with small, integrated in-house teams.

"We do it all ourselves and that helps make it real," says Mr Bennett. "These guys live and breathe the business every day, rather than being from a production house or broker."

A lot of time is spent by the shortlisted companies and their peers, large and small, in broadening their investor base, in the UK and overseas, but that strategy can have its pitfalls.

Mark Thomas, a business strategy specialist at PA Consulting Group, says that large and mid-sized companies should take a leaf out of US investor Warren Buffett's book and try to build a small but loyal and long-lasting base of shareholders.

"People need to look at investor relations as a long-term game. I'm not sure anyone is going to get any lasting gain from a short-term burst," he says

"Building a relationship with a manageable number of investors with, ideally, a long holding period will serve [mid-sized and other companies] well."

Winner: The Rank Group

Results webcasts at The Rank Group are unlikely to include video any time soon, writes **Andrew Baxter**.

"At such point as I've got Cary Grant as my CEO, then we'll do a video webcast," says Dan Waugh, the bingo hall and casino operator's group strategy director.

"Having video doesn't necessarily augment the quality of the presentation – in fact, sometimes it can be quite distracting."

This straightforward approach, focusing on effectiveness and value for money when resources are tighter than at bigger companies, lies behind Rank winning this category. "I like to think we get the basics right," says Mr Waugh.

The most important factor in getting the company's message across to investors is to know who the target investors are, so that resources can be deployed as effectively as possible, he says.

Reaching investors involves a mixture of broadcast – using decent sell-side brokers to engage with potential investors really helps, says Mr Waugh – or narrowcast communication via one-to-one and other meetings.

Having clear objectives and allocating resources accordingly is also integral to Rank's investor communication effort.

"Every year there's a little battle with the annual reports company, which wants me to spend two or three times as much on it as I am doing," says Mr Waugh. "We are always open to new ideas but have to see the value in it."

But it is senior management's time that is often the scarcest resource. Hence a key role for the website is making critical information easy-to-find and clearly laid out.

"This frees up time and resources to engage with investors in other ways," says Mr Waugh.

The future for Rank's investor communication effort will be "more of the same", he says, with the traditional mix of monthly investor updates, roadshows in various territories and site visits.

"We innovate to meet investors' needs rather than come up with something wizzy that nobody was asking for."

Numbers game: Rank Group has a straightforward approach to communication Newscast

Global exposure helps lift BlackRock

Fund Manager of the Year

Masa Serdarevic on the strategy of the winning team

To profit from investing in smaller UK stocks last year, Mike Prentis had to look internationally. That is, target stocks with significant global operations, given the UK economy's sluggish rate of recovery.

The BlackRock Smaller Companies Trust grew its net asset value by 61 per cent over the year, strongly outperforming the 29 per cent rise in its benchmark.

Mr Prentis, who has run the £324m fund for more than eight years, attributes much of last year's success to a combination of highly honed methodology and an element of good fortune.

"Last year was our sort of year. The market was appraising companies on quite a fundamental basis and that suits us," he said.

The common feature across the fund's core holdings was the global nature of their earning streams.

"All are very international businesses," Mr Prentis says, highlighting in particular Abcam, a developer of antibodies, Fidessa, a trading technology group, and Domino Printing, which develops industrial printing equipment.

In scouring a huge market that encompasses more than 1,500 potential companies, Mr Prentis sets five main hurdles that need to be jumped before he considers investing in the stock.

Trust in the management is the single most important thing. "We have to feel they're really doing something different, he says. "We look for evidence they can grow sales organically year after year. Acquisitions are something we're quite wary about."

He also looks for businesses with healthy pricing power, who "get stronger at the expense of weaker competitors".

Mike Prentis: five hurdles

This feature was all the more important last year, as input prices shot up. "It's critically important that our holdings can pass increased input prices on to customers," he says.

Companies that return a high level of profits to shareholders through dividends are also favoured, as is a strong record of beating earnings expectations.

Last year in particular, many of the fund's larger shareholdings reported better results than the market was expecting.

> 'We start with small holdings and see how it goes. If we're happy, we build the position over time'

Lastly, a strong balance sheet is much sought-after, especially in the aftermath of the financial crisis.

However, when the fund makes new investments, it does not expect the company to be strong in all these five areas.

"We start with small holdings and see how it goes," Mr Prentis says. "If we're happy, we build the position over time."

Consequently some of the fund's largest holdings are also its oldest. It started investing in two of its biggest holdings, Fidessa and Aveva, which develops computer software, more than 10 years ago.

Looking at performance across its total of 160 holdings, no one company stands out says Mr Prentis. Instead, performance was solid and steady across the group.

This is partly because the largest holding is only 2 per cent of the portfolio. "We don't want any one holding to [be able to] cost us," explains Mr Prentis.

It also reflects the difficulties in investing in small companies, where the stock is sometimes not very liquid.

This was a particular issue during the financial crisis, forcing the fund to allocate more money to larger stocks. But in the past 18 months, it has been unwinding these positions and moving back towards smaller companies where Mr Prentis sees greater opportunities.

"Small-caps are generally not well-covered. [It means] we can get close to the companies and find some great opportunities," he says.

Today, about 60 per cent of the fund is invested in "true small caps", namely companies with a market capitalisation of less than £400m.

As a veteran of the private equity industry, Mr Prentis has made a career out of investing in small and midsized private and listed companies.

After starting his career as a chartered accountant, he moved to 3i, the private equity group. It was a "great background for assessing smaller companies, [because] the investments are not liquid at all," he says.

Going into the current year, the fund retains its strong bias towards companies with international exposure. More than 50 per cent of revenues come from Asia, emerging markets and the Americas.

Some 17 per cent is from continental Europe with the balance made up of revenues from the UK.

Mr Prentis says: "Small caps can be as international as the FTSE 100, but you can have much higher growth. That's what most people don't get."

Long and tortuous road back to profit

Turnround of Year

It has been a tale of resilience in adversity, reports **Courtney Weaver**

It has been a tough slog for the contenders for this year's Turnround of the Year award. Only now – after two years of restructuring, painstaking cost cuts and disposals – are the four companies starting to see their efforts reflected in the bottom line

It is a sweet reward for the groups' management teams and also for their shareholders, who managed to maintain faith in the businesses' future, even when they appeared on the edge of a precipice.

For **Kofax**, the image-scanning software maker, the restructuring efforts first kicked in February 2008, shortly after Reynolds Bish took the helm as chief executive but well before the global financial crisis.

Mr Bish outlined plans to centralise the company's management structure, create a performance-based compensation system and set up a programme to sell to its large corporate and state customers directly.

'Some of the people who were sceptical about whether we had implemented sustainable change are now believers'

However, the measures took longer to implement because of the recession.

He says: "In light of the financial meltdown, a lot of the benefits from the changes were a bit slower to be realised than we anticipated.

"Beginning about a year ago, we began to report financial results and other performance metrics that validated the wisdom of all the change we were implementing."

In its results for the 12 months to June 2010, Kofax announced year-on-year revenue growth and improvements in its operating income and cash generation.

At its latest results, for the six months to December 2010, Kofax reported that sales in its software business were up 20 per cent to $121.7m, while pre-tax profit had increased from $1.6m to $18.1m.

Shares in Kofax rose as much as 21 per cent on the news, their biggest jump since December 1999, a sign of increased confidence in the future of the business.

"Some of the people who were sceptical about whether we had implemented sustainable change are now believers," Mr Bish says.

In January, the company disposed of its hardware business and is now focusing on its software division, which Mr Bish says will be the source of growth for the company.

Like Kofax, **Avon Rubber**, a military gas mask manufacturer, has also had to pare down to redefine itself.

Established more than 100 years ago, Avon first started out as a manufacturer of rubber tyres for cycles. It later expanded to add automotive parts, gas masks and milking equipment divisions to its repertoire, but in the past five years has scaled back massively.

The automotive components unit and its rubber mixing plant have both been sold off, while its milking equipment unit has been outsourced to the Czech Republic. although the dairy business remains an integral part of Avon Group, the company is also focusing on the defence industry.

The company has a big contract with the US military and in the past year has won new contracts with Italy, Canada and Saudi Arabia.

To shore up its finances, Avon has renegotiated its debt facilities and cut the cost of borrowing. Meanwhile, last May it announced a new funding plan to reduce its pension deficit.

In the year to September 2010, Avon reported sales up from £100.9m to £117.6m, while its pre-tax profit rose from £1.86m to £7.1m. Earnings per share were 15.2p, versus a loss of 0.6p a year earlier.

The company also announced it would reinstate its dividend.

Wolfson Microelectronics, the third contender for the award, reported its first quarterly profit in two years for the third quarter, as the Edinburgh-based audio chipmaker saw increased demand for its chips in smartphones and gaming consoles.

While the company reported a pre-tax loss of $1m in the fourth quarter, analysts are still optimistic about its long-term recovery. so, it seems, are investors: the company's shares have doubled during the past 12 months

Investors' renewed interest in Wolfson comes on the back of the company's own reinvention campaign.

In 2009, Wolfson lost its contract with Apple Computer, one of its biggest customers.

While the loss might have been a death sentence for the group, Wolfson has tried to turn it to its advantage, developing a new product called the audio hub and ensuring that its chips made it into most of the other smartphones and tablets coming to market.

The company says it is targeting a gross margin of 50 per cent in 2011 on the back of a range of new product designs. For 2010, Wolfson reported a 30 per cent increase in turnover from $121m to $157m, enjoying a 67 per cent increase in turnover during the fourth quarter. Losses narrowed from $14.8. to $11.2m.

Winner Volex

Volex: 'The company is aligning itself with its global customers.' Science Photo Library

When Ray Walsh took the stage at a Volex investor day last month, looking back at him in the audience were a group of 60 analysts and fund managers from institutions including Schroders, JPMorgan, Investec and Jupiter, writes **Courtney Weaver.**

"Two years ago," Volex's 45-year-old chief executive jokes, "nobody in that room would have returned my phone calls."

Turning round Volex, an electric and telecom cables producer, has not been an easy job. Yet thanks to prudent cost-cutting, a refocusing on the customers' needs and support from its new long-term shareholders, the company is coming out of the recession in reasonable shape.

The group's share price more than doubled in 2010, making it the best performing share in the PLC awards as well as the turnround of the year. The company reported basic earnings per share of 9.3p last year, versus a loss of 34.1p a share in 2009.

Mr Walsh attributes the jump to the new shareholder base, which recognises "the long-term value" of Volex in spite of its poor record in the past. (Previously, its investor base was made up primarily of hedge funds and private equity firms.)

"The company had such a damaged reputation in the City and so many times had over-promised and under-delivered. Everyone had lost faith in it," Mr Walsh says.

The company's story is a familiar one in the UK technology sector. Volex grew rapidly during the dotcom boom, thanks to a quick series of acquisitions, but then reported flat sales for most of the next decade.

Mr Walsh joined in 2009, shortly after the arrival of Mike McTighe as chairman. Every other member of the chief executive's team has been brought in during the past 18 months.

The new management did not have any "grand new restructuring plan", Mr Walsh says. Instead, it simply went back to basics and began investing in the products its customers actually needed.

The company, which also provides cables for laptops and TVs, had a historic focus on the consumer sector, but is now giving more attention to corporate customers in the telecoms, industrial and healthcare sectors.

"The company is aligning itself with its global customers," says Richard Hickinbotham, an analyst at Charles Stanley, Volex's house broker. "Increasingly its regional customers are not able to come up with everything they need" so they are turning to Volex for the cables they cannot produce in-house, he says.

Among the company's customers are big names such as Apple, Dell, Ericsson and Samsung.

From a cost-cutting perspective, Volex's biggest change was selling its wiring harness business, which made electrical systems used in commercial vehicles and the aerospace industry. The unit always ran on thin margins and made a £21m loss on discontinued operations at the time of its disposal.

Other restructuring changes were less pronounced. The company has gradually cut the number of its manufacturing sites from about 30 a decade ago to nine today, and has simultaneously reduced its supplier base and driven down net debt levels from £21m at the end of 2008 to less than £8m at the end of last year.

The management created a pay structure based on performance review and moved its head office from Warrington to London. And a decision to work with just one global freight partner – instead of the 70 freight forwarding companies it was using previously – has saved it £1m a year.

As Mr Hickinbotham says: "All these things just sort of add up."

This coming year, Mr Walsh says, Volex may consider making a few small acquisitions but emphasises the deals will be more like capital expenditure projects and will not constitute a transformation of the company.

The chief executive will also be keeping an eye on the price of copper, which rose above $10,000 a tonne last month.

While higher copper prices have slowed the company's earnings momentum, Mr Walsh emphasises that the group's underlying business has remained stable.

"Despite some very significant headwinds on commodity prices, which affect our inflow costs, we have managed to hold the line on our margins," he says.

Determined to remain leaders in their fields

Best Technology

It is essential to invest during hard times, too, writes **Michael Kavanagh**

Building your business by supplying customers with the tools of their trade is a simple concept. To use a phrase, it is not rocket science.

However, for the most innovative British companies, it is rocket science. For some, it is also brain surgery.

London-listed mid-cap companies are hard at work developing market niches with designs that stand behind world-leading technologies that pervade our homes, offices, factories and hospitals.

Some of these are used by computer chips used in smart phones and computer tablets, MRI scanners that detect illness early enough to save lives, polymers to replace human hip joints and metal in military jets, and brain probes used to control the symptoms of Parkinson's disease.

The buffeting of the world economic downturn did not leave such companies immune from the need to cut costs and staff, as they coped with squeezed demand for their applications as markets dipped.

But what most have in common is a commitment to maintain high levels of expenditure in research and development as they sought to ensure, whatever the state of the world economy, that they would remain as technological leaders in their global market niches.

Wolfson Microelectronics exemplifies companies that have invested heavily for the future, even as a downturn in its markets – and in its case the loss of key contracts with Apple – left it struggling financially.

Its reward for maintaining intensive investment in developing its products was a strong surge in sales last year, up from $121m to $157.3m, and a return to operating profit, as it won favour among leading global makers of smartphones, tablet PCs, e-book readers and the latest gaming devices.

In spite of financial constraints, Wolfson actually increased its R&D spending last year from $37.6m to $42.8m, as development remained its leading category of overhead compared with the $24m spent on distribution and selling, and $19.9m on administrative expenses.

Oxford Instruments, the first commercial spin-out company from Oxford university, also increased its R&D spending, as its order book reached new highs at the interim stage.

The company, which suffered amid a downturn in demand among industrial customers for its portfolio of products, is now benefiting from a release in pent-up demand as companies purchase the tools to crank up their own R&D activity.

Beyond its involvement in developing MRI scanners, its products are also used to measure the thickness of industrial coatings, the amount of fat in chocolate, and to analyse rock cores.

And while the aim of the company, which started in a garden shed, is "developing commercially successful products", it is nice to know that leading scientists like your products, too.

Oxford Instruments' equipment is used by last year's winner of the Nobel Prize for Physics, Professor Kostya Novoselov from the University of Manchester, who is researching the properties of the new nanomaterial graphene.

Gloucester-based **Renishaw** is another technology-led engineering company that has insisted on maintaining its R&D commitment – with investments often not coming to fruition for years – in spite of the problems created by the economic crisis of late 2008 and 2009.

A sharp fall in demand for the metrology equipment used in the operation of machine tools, used extensively in the automotive and other industrial sectors, forced it to lay off staff for the first time in its history. Now, the orders and jobs are back.

But the company has stuck by its strategy of investing in its medical division, where it has just sold the first of an enhanced range of neurosurgical robots.

Despite being lossmaking, Renishaw's medical division is expected to become a counterbalance and a more steady earner than the company's established business, which has a large historic exposure to the automotive sector.

This strategy is similar to that emerging at **Victrex**, the producer of high-tensile, heat-resistant plastics used in cars, aircraft and hip replacements.

A bounceback in demand in 2010 allowed it to declare a special dividend of 50p following a strong recovery in full-year revenues and profits.

But the high-margin and steady sales at its Invibio unit, which specialises in polyketone-based medical implants, helped steady the ship during recession.

The company has raised its R&D budget from £4m to £4.6m, as it seeks to extend the used of its polymer in the high-growth and lucrative medical implant arena.

Winner Renishaw

Sir David McMurtry, chairman, chief executive and leading shareholder at Renishaw, has stared into the abyss of an uncertain and prolonged recession, but now has the luxury of looking back across it from the other side.

"We were losing millions a month without knowing when it would stop," he says.

A collapse in demand in the automotive sector following the global economic downturn forced the company to impose short-time working and compulsory redundancies for the first time in its history.

However, its fortunes were restored during 2010 and Renishaw delivered a 75 per cent increase in interim turnover from £74m to £129m and a leap in profits from £7m to £35.5m for the six months to December.

It is Asia's growing appetite for machine tools, for which Renishaw provides key sensors, probes and calibration technology, along with bounce-backs in traditional markets of Germany, Japan and the US, that has restored its fortunes.

Renishaw is an oddity in the UK-listed engineering sector by maintaining a vertically integrated manufacturing hub in Britain. With an engineer's precision, Sir David, stated in January that his company had 248 vacancies, as he argued that government education policy should be amended to ensure he had UK candidates to fill them.

A record of investing an average of 18 per cent of turnover has allowed the Gloucestershire-based group to maintain its technical edge, and it exports much of its British-made output to China, the world's leading exporter.

Sir David, who holds a 36 per cent stake in Renishaw, insists the company must continue to invest heavily to develop new markets, such as his medical division which manufactures brain probes and dental equipment.

"These are extremely difficult products to develop, but therefore it's difficult for other people to enter the market," says Sir David.

He has also dismissed the model of offshoring or contracting out production now prevalent among peers.

"We are not teaching other people what we can do," he says.

David McMurtry: urges changes in UK education policy

Investors now show a greater sense of engagement

Sustainability

Green issues are a central part of some companies' values, says **Rod Newing**

Mid-sized companies are not generally as rigorously examined and held to account by their stakeholders as their large global counterparts, and so experience less pressure to address sustainability.

Indeed, Hugh Jones, managing director of Carbon Trust Advisory Services, has seen a reduction in the number of professionals employed specifically to manage sustainability issues.

Nevertheless, some companies have performed well. "More energy-efficiency work has taken place in sectors where energy costs are substantial, so there is a clear financial imperative," he says.

"Also, there is a bigger incentive to act where brand is a core part of a company's values and ethos."

FTSE4Good, a socially responsible investment index that includes **DS Smith** and **Telecity**, winner and shortlisted respectively in this category, has been compiled for the last 10 years.

"We have seen a real improvement in companies' environmental and social practices," says David Harris, director of responsible investment at FTSE4Good.

"For a number of years, companies were ahead of the investment community in understanding the importance of sustainability issues, but investors have been playing catch-up and are now getting more engaged on the issues."

He says initiatives such as the United Nations-backed Principles for Responsible Investment have been a catalyst, along with the Financial Reporting Council's UK Stewardship Code. There is now a requirement by fund managers to report on how they engage with companies on broader environmental, social and governance issues.

Mothercare, last year's Company of the Year, owns the Mothercare and Early Learning Centre brands, which sell clothing, homeware and toys through 115 stores globally. The company says environmental considerations form an integral part of its core business values.

Both brands are synonymous with children and parenting. "Thinking long-term to provide for the next generation is at the heart of what we do, so we are serious in our focus on sustainability," says Ben Gordon, the company's chief executive.

Last year, two years into its five-year target, it achieved the Carbon Trust Standard and agreed a three-year global partnership with Save the Children. Called "Born to Care", the campaign aims to raise £1.75m to fund the charity's global child survival work and its work to end poverty in the UK.

Quintain Estates & Development is one of Britain's largest property regeneration companies. "Our business model is predicated on long-term ownership of real estate," says Adrian Wyatt, its chief executive.

"It is by creating environmental and social value that the economic value of our assets will be secured into the future."

BioRegional Quintain is building a zero-carbon community based on the 10 One Planet Living principles at One Brighton, a development of homes, offices and shops in the city on England's south coast.

Nearly half the materials used were recycled or reclaimed. It features a communal wood-burning boiler, solar panels, rooftop allotments, communal sky gardens, a "green caretaker", a car club and fresh produce deliveries from a local farm.

Quintain's residential scheme at Wembley City incorporates a vacuum-based household rubbish management system. A series of underground pipes take waste directly from users to a central plant, where it is sorted for recycling.

In 2007, Mr Wyatt established the Sustainable Environment Foundation, a charity to develop and support strategies for creating buildings and towns which are in harmony with nature.

"Man is now primarily an urban species and the battle against climate change will be won or lost in towns and cities," he says.

Telecity Group operates a network of 24 independent data centres in prime city-centre locations across Europe. "Sustainability is a fundamental driving force in our business," says Rob Coupland, its chief operating officer.

"Data centres are heavy users of energy, so we are keenly conscious of our impact on the environment. In every business decision we take, we try to find a way to maximise energy efficiency and minimise our carbon footprint."

Condorcet, its latest data centre in Paris, is designed to be Europe's most energy-efficient data centre, including hydrogen fuel cells and incorporating a "Climate Change Arboretum".

"We were determined to lead by example and set the bar as high as we could for the industry," says Mr Coupland.

Mr Jones at Carbon Trust concludes that the leading mid-sized companies are not just "doing" sustainability around the margin. "In the medium and long term, they are building sustainable, more competitive businesses," he says "The really good performers will see the fruits of their efforts."

Winner DS Smith

As a supplier of recycled packaging, DS Smith is the UK's largest collector of waste paper. Sustainability is not so much at the heart of its business, it is its business. The company's mantra is "differentiate through service, quality, innovation and environmental solutions", writes **Rod Newing**.

DS Smith collects more than 1.7m tonnes of used paper and cardboard in the UK each year, and uses it to make corrugated packaging. Nearly 80 per cent of the paper in its corrugated packaging operations in 2009-10 was recycled. In the same year, it reduced carbon emissions by 1.5 per cent and water usage by 4.5 per cent. With a turnover in excess of £2.1bn, including international operations, it employs more than 12,000 people.

The company operates a 14-day cycle. It collects waste paper and packaging from all the leading supermarkets, recycles it in its paper mills, manufactures the cardboard packaging, and delivers it to consumer goods companies, so the boxes are in the supermarket two weeks later.

By reducing steam pressure and bonding agents, the company has reduced carbon dioxide emissions by 400 tonnes without impacting product quality.

The company worked with Marks and Spencer on its "Plan A" Sustainability Plan, through its Severnside recycling business. In support of DS Smith's submission for the Green Awards 2010, the retailer said: "This partnership has the long-term aims of making Marks and Spencer 100 per cent waste recyclers across all offices and its more than 400 stores. After the first year, more than 50,000 tonnes of waste have been recycled, essentially doubling the previous figures."

Miles Roberts, chief executive of DS Smith, says that sustainability is central to the company's business-model. "Our closed-loop solution is a key differentiator," he says.

"Increasing the amount of waste we collect and transform each year is a vital part of our strategy."