

MID-MARKET COMPANIES

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The UK's small caps offer scant shelter

Although poor, the performance is better than that of most other countries, writes **John Willman**

Last year was one that most investors will wish to forget – and that is certainly the case for those who invested in mid-market company shares.

As the financial crisis deepened in 2008, the stock market plunged and the FTSE All-Share index fell almost a third.

The carnage was far worse

among smaller companies, however, with the FTSE Small Cap index down 46 per cent and the FTSE Aim All-Share falling an eye-watering 62 per cent.

In such a market, it is hard to find companies that have managed to hold their own.

Yet many of those shortlisted for this year's PLC Awards managed to outperform the market last year – and some even pulled off the feat of ending 2008 with their share price higher than at the start of the year.

The companies that qualify for entry in the PLC awards, which were presented last night at a dinner in London, are those listed on the London Stock



No escape from the storm: the shortlisted candidates and winners have performed well despite the financial storms

Reuters

Winners of the 2008 PLC Awards

Company of the Year
(sponsor: College Hill Associates) Winner: Telecom Plus; Shortlist: Bloomsbury Publishing, Business Post, Dechra Pharmaceuticals.

New Company of the Year
(sponsor: Singer Capital Markets) Winner: Mears Group; Shortlist: Domino's Pizza UK & IRL, Spice.

Entrepreneur of the Year
(sponsors: Evolution Securities) Winner: Robert Watson, Hilton Food Group; Shortlist: Chris Aspinwall of Fidessa, Alastair Beardsall of Emerald Energy, Simon Rigby of Spice.

Best Investor Communication
(sponsor: Redleaf Communications) Winner: BTG; Shortlist: Galliford Try, Holidaybreak, Smiths News

Achievement in Sustainability
(sponsor: PwC) Winner: Marshalls; Shortlist: British Polythene Industries, Communisis, RM

Best Technology
(sponsor: SJ Berwin) Winner: Oxford Instruments; Shortlist: BATM, Fidessa, Ricardo

Best Performing Share
(sponsor: Winterflood Securities) Winner: Asterand

Best Performing Smaller Company Fund (sponsor: KBC Peel Hunt) Winner: Standard Life UK Smaller Companies Trust
(Manager: Harry Nimmo)

Inside this issue

Straight talking
Clear communication is more important than ever, says **Charles Batchelor** **Page 2**

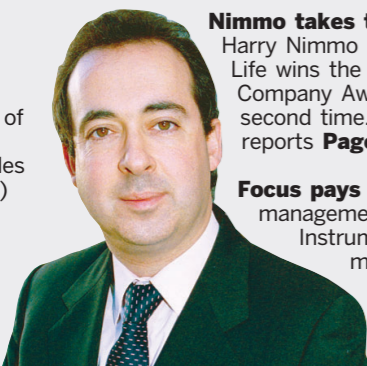
Top model
Ross Tieman profiles Company of the Year Telecom Plus, run by Charles Widoger (pictured) **Page 2**

Restructuring bears fruit
Asterand's shares benefit

from a significant shake-up writes **Charles Batchelor** **Page 3**

Nimmo takes title again
Harry Nimmo of Standard Life wins the Smaller Company Award for the second time. **Kate Burgess** reports **Page 4**

Focus pays off
Under new management, Oxford Instruments has moved ahead, writes **Phil Stafford** **Page 4**



Exchange that are too small to qualify for the FTSE 100 and 250 indices, but are not quoted on the Aim market for smaller, growing companies.

The shortlisted candidates and the winners, profiled in this Special Report, have been able to do better than the rest of the field, even as the worst financial crisis in living memory has ushered in a sharp economic downturn whose bottom has yet to be plumbed.

For most mid-market companies, however, it has been a sorry story, as can be seen from the Hoare Govett Smaller Companies Index, which represents the smallest 10 per cent by market capitalisation of the London Stock Exchange main market.

In 2007, the HGSC gave a total return – including reinvested dividends – of minus 5.9 per cent, compared with plus 5.3 per cent for the FTSE All-Share.

Last year, the HGSC total

return was minus 39.6 per cent, 9.6 percentage points worse than the All-Share.

Elroy Dimson and Paul Marsh of London Business School, who created the HGSC in 1986 and have compiled data going back to 1955, say 2008 was a “dreadful year” and the second worst year on record – beaten only by 1974.

There were 907 companies in the HGSC at the start of 2008, of which 495 were non-investment companies. Just 68 shares in the non-investment companies produced a positive return last year.

Analysts at Royal Bank of Scotland, which publishes the annual HGSC report, say they do not expect an early return of confidence in small-cap companies.

“While small-cap valuations are at historic lows, the heavier dependence on the vulnerable UK economy means risks to profits and dividends are high,” says Richard Rae, head of UK Mid/Small Cap Equities.

The only consolation for investors in British small-caps is that they would have done worse by investing in such shares overseas.

Prof Dimson and Marsh surveyed returns from investing in small caps in 24 countries, and found the results were better

The shortlisted companies have been able to do better than the rest of the field in the worst financial crisis in living memory

than in the UK in just three: Japan, the US and South Africa.

In Russia, small caps produced the lowest return last year at minus 84 per cent, while India, Hong Kong and Denmark were between minus 64 and minus 66 per cent.

UK smaller companies did worse than the blue chips in almost every business sector, according to Professor Marsh.

“Clearly the underperformance of the Hoare Govett index cannot be attributed to being over-exposed to the wrong industries,” he adds. “There was a size effect within industries.”

This size effect is seen even more strongly in Aim company performance last year. The FTSE Aim All-Share index gave a return of minus 62 per cent. This means that Aim has given investors an annualised return of minus 7.6 per cent since the index was launched in 1997 – compared with plus 3.7 per cent for the HGSC.

It is no surprise, therefore that the number of Aim companies fell last year for the first time, as initial public offerings dropped from 207 in 2007 to only 56 in 2008. The debutants were insufficient to outweigh the number

delisting, either because Aim provided a dual listing for an overseas company, or because the listing costs were too high at a time when there was little prospect of raising finance or issuing stock for acquisitions.

Meanwhile, a growing trickle of companies is moving from Aim to the main market, where valuations can be higher and liquidity greater. This year's migrants have included all three of the shortlisted candidates for the New Company category of this year's PLC Awards.

The success of such companies shows there are still smaller companies that can prove rewarding for investors, according to Nigel Hopes, partner at PwC, the principal sponsor and organiser of the PLC Awards.

But most investors have neither the time or the skill to find them and rely on index-tracking

Continued on Page 4

Managing in a downturn – risk and opportunity.

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Mid-Market Companies

Qualities that help to buck the trend

COMPANY OF THE YEAR
Ross Tieman finds stability at the top and a commitment to innovation

What are the qualities common to the contenders for this year's Company of the Year Award? A sustained growth record, of course, annual sales of £150m or more, and a record of innovation.

But equally striking, each has a chief executive who has been in place for many years, and who has a clear long-term vision of where the business is headed.

Telecom Plus, which scooped the award, has been run by chief executive Charles Wigoder for a decade, since he picked it up as a new-born.

Ian Page, at **Dechra Pharmaceuticals**, started as a van driver and the first employee in the business that he has built into an international veterinary medicines group. Though Guy Buswell, chief executive of **Business Post**, did not drive the taxis when it was the Yellow Cab Company, he has been there, off and on, for almost 20 years. And Nigel Newton has run **Bloomsbury Publishing** from the day he founded it almost a quarter century ago.

Mr Newton gives most of the credit for signing JK Rowling, whose Harry Potter series turbo-charged the company's growth, to former colleague Barry Cunningham. But as Mr Newton points out, only in seven of the past 23 years did Bloomsbury publish a Potter book. Yet, since 2003, annual revenues have almost doubled, to £150m in 2007, when underlying profits reached £17.9m.

Bloomsbury retains its ability to pick good manuscripts. *A Thousand Splendid Suns* by Khaled Hosseini and Ms Rowling's *Tales of Beedle The Bard* topped the 2008 UK bestsellers, and publication this year of Alice Schroeder's biography *The Snowball - Warren Buffett and the Business of Life*, shows it is in step with the times.

So does Bloomsbury's £50m cash pile. But the group is also acquisitive and technologically innovative, digitising its books for download and print-on-demand,

and partnering the Qatar Financial Centre Authority to develop Qfinance, a kind of financial dictionary, and with Oxford University Press to produce biographical resources, in both cases blending printed and online services.

At Dechra, Mr Page and his finance director and buy-out partner, Simon Evans, have displayed a similar talent for acquisition and innovation.

Using the cashflow from the original veterinary products distribution business, and combining organic growth and bolt-ons, the two have built a complementary pharmaceutical manufacturing and marketing operation that now extends to Europe and the US.

In the pharmaceutical business, they have spurned the livestock treatments that are the battleground of big pharma, and focused on buying or developing products, mainly derived from human medicines, to treat dogs, cats and horses.

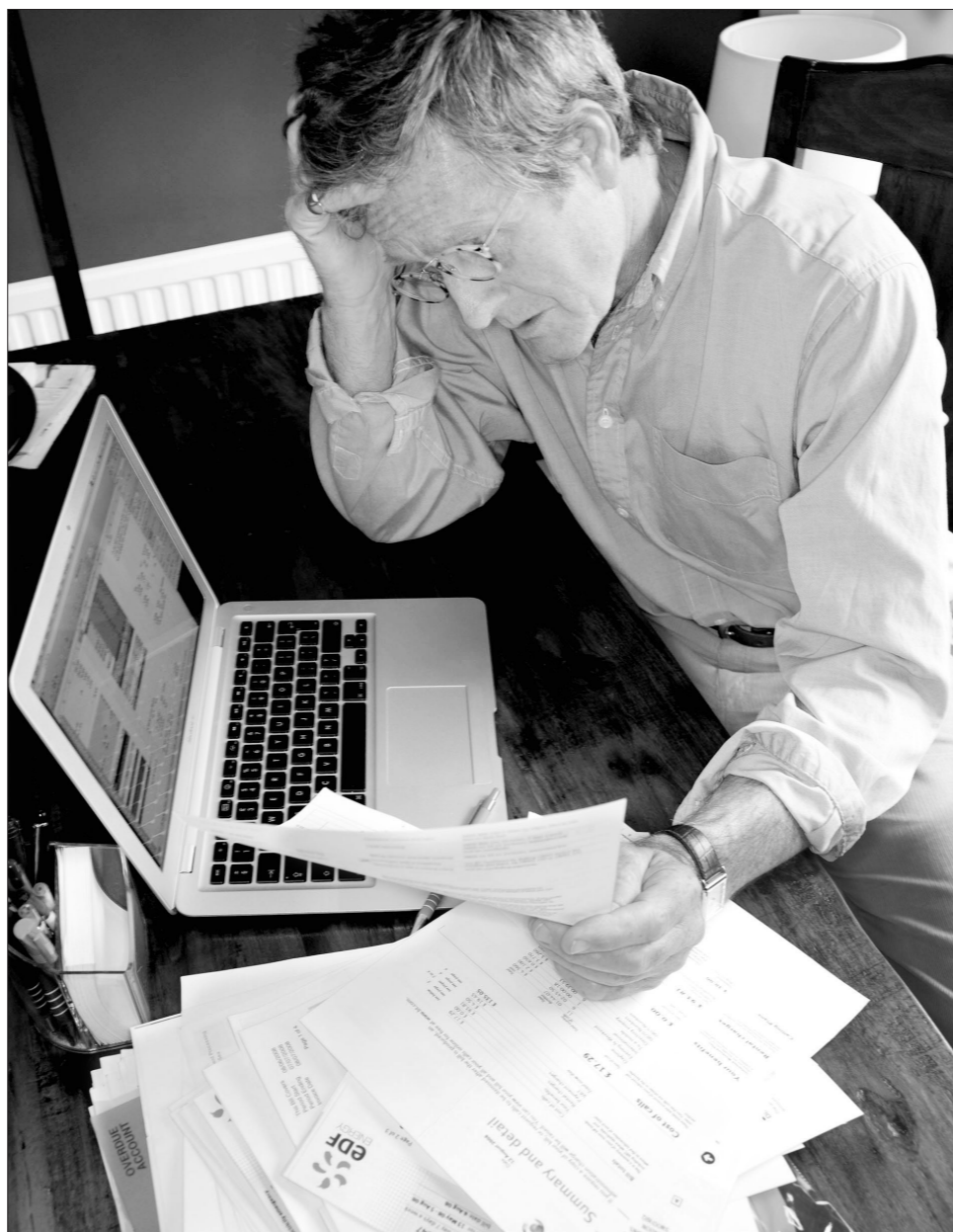
As they have expanded into European and US markets, products that used to win annual sales of £2m to £3m are now targeting £20m to £30m. While Britain has a dog population of 6.8m, the US has 70m. Even in a downturn, UK spending on pet medicines has risen.

Not so Dechra's pre-tax profit. In the half to 31 December, on sales up 23 per cent to £173m, pre-tax was flat at £7.3m, as goodwill write-offs and R&D spend increased. Fear not, says Mr Page: the underlying profit increase was 40 per cent, ahead of the group's five-year annual average rise of 33 per cent.

Mr Buswell at **Business Post** is another committed to spending on technology to boost competitive edge. The company, which listed in 1993, carved a niche in delivering parcels business-to-business, and has built out into business-to-consumer deliveries, shifting whole pallets of parcels, and delivering mail.

In the half to end-September, the parcels business accounted for about half of the group's £194m turnover, up 16 per cent year-on-year. Every parcel is scanned at each stage in its journey, requiring big investments in state-of-the-art computer systems that assure reliability that customers value.

As the economic slowdown dulls parcels progress, its



Telecom Plus customers receive a single bill for phone, broadband, gas and electricity Alamy

Company of the Year: Telecom Plus

By any measure, a FTSE 250 business that is doubling revenues annually is remarkable; to be doing so in the utility sector, by definition mature, is all the more astonishing, writes **Ross Tieman**.

Clearly, Telecom Plus, winner of the Company of the Year award, has found an original and effective business model.

The company, where Charles Wigoder, the chief executive, and his family and friends acquired control in 1998, six months after its foundation, is unique in the UK market in offering mobile and fixed telephony, broadband and gas and electricity services to its customers on a single bill.

It does not advertise. Rather, new households are recruited to its Utility Warehouse Discount Club by a network of more than 4,000 distributors who are existing users. These word-of-mouth customer ambassadors receive a tiny percentage of the bills paid by every new customer they recruit, in perpetuity, so retain a strong interest in ensuring ongoing customer satisfaction.

Their task is facilitated by a string of plaudits from consumer watchdog magazine Which? which says Telecom Plus is the best household provider of broadband, fixed telephony and energy in the UK.

It buys bulk telecoms capacity at wholesale prices in an oversupplied market and gets its energy from producer Npower, under a deal that transfers the risk of price fluctuations to the provider. In addition, he company supplies businesses, mainly small companies, brought in by its distributors. It benefits from a tougher economic

climate in several ways, says Mr Wigoder. "Many casual jobs no longer exist, overtime opportunities are no longer there, work hours are reduced, so we are seeing record numbers of new distributors" looking to top up their income. Meantime, consumers are keener to grasp opportunities to shave household bills, and improve visibility over their outgoings.

In the year to March 2008, Telecom Plus, which is debt-free, achieved revenues of £186m and net profits of £11.9m. By September last year, it had 227,384 household customers, up 19,000 since end-March, and trends have since accelerated.

The latest spur comes from its CashBack MasterCard, a chargeable payment card which helps households economise. Using the card for purchases at retail chains such as J Sainsbury and Boots gives household a 5 per cent discount offset against their Telecom Plus bills.

Mr Wigoder says the biggest challenge is managing the pace of growth and underpinning it with flawless IT systems. But he has experience. He previously founded the Peoples Phone Company, a virtual operator, which he built from 100,000 customers to 400,000 within 18 months before selling it to Vodafone in 1996.

Since Mr Wigoder and associates control a majority of the equity, "we are looking to create long-term shareholder value rather than near-term management bonuses," he says. "There is a clear alignment between management and shareholder interests."

UK Mail brand continues to achieve rapid growth, with first-half sales ahead 34 per cent to £80m.

Thanks to its advanced technology, UK Mail has contracts delivering customer statements for three of the four biggest UK banks, three of the biggest mobile phone operators, and so on, handing them over to the Royal Mail's postmen for

the final leg on their rounds.

Its latest innovation is iMail, a service that allows statements to be transmitted electronically and printed and mailed close to the point of delivery, reducing transport costs. Next for launch are print-to-order postcards, handy for online consumers, but also for doctors sending appointment reminders.

With net debt close to zero, Mr Buswell is confident **Business Post** can continue to grow using technology to sustain its competitive advantage.

So there are two more essential ingredients that the Company of the Year contenders display that help them thrive in today's demanding economic environment. Good liquidity, and competitive innovation.

Difficult times call for clear messages

INVESTOR COMMUNICATION
Keeping investors informed remains essential, reports Charles Batchelor

A downturn puts a premium on good investor communication. This was a common theme behind the strategies pursued by the companies shortlisted for this year's award, although most also faced specific challenges.

As a combined contractor and house-builder, **Galliford Try** has to explain its hybrid status to investors, while **Smiths News**, a distributor of newspapers and magazines, has to create a profile for itself alongside the better-known retailing operations of **WH Smith**, from which it demerged.

BTG had to keep investors on board while it completed an ambitious acquisition at a difficult time, and **Holidaybreak**, last year's winner, believes that producing a detailed analysis of its markets reveals a more nuanced picture than that conveyed by the general impression of doom and gloom.

Websites play an increasing role in investor communication. The best provide almost as a matter of routine masses of data on company performance, share price movements and brokers' forecasts, which would have required hours of patient searching and reams of documents only a few years ago.

Sites are becoming more interactive, allowing investors to manipulate data, and offering webcasts that let distant investors participate in annual meetings and chief executive presentations. But a company's website is only part of the picture - **BTG** describes it as "the first port of call" - and meetings with analysts, site visits and even the staid old AGM play their part.

Richard Barraclough, company secretary of **Galliford Try**, says: "We are a hybrid contractor and householder, so our challenge is to get investors to realise the true value in our business."

Housebuilding was one of the first sectors to suffer in the economic downturn. Rather than attempt to put a gloss on the situation, the company acknowledged the difficult market conditions. "We told people we were starting to run the business for cash rather than for margins," says Mr Barraclough.

The company website was important, but, he explains, "we tend to look at investor communications as a whole suite" of techniques. These include meetings with analysts and investors, the provision of an open-access phone-in for investors at the time of the interim management statement and a spe-

'It is what you say as much as the medium. We try to avoid management speak'

cial presentation for the larger private investors who attended the AGM.

"We use all these things," Mr Barraclough explains. "It is how you use them and what you say as much as the actual medium. We try to avoid management speak and tell it as it is."

Three years after it demerged from **WH Smith**, **Smiths News** still has to face the challenge of having been what Mark Charlton, company secretary and head of communications, calls "the quiet part of the business". **Smiths News** employs 4,000 staff in 45 distribution centres serving 23,000 retailers across England and Wales.

The demerger involved issuing **Smiths News** shares to **WH Smith** shareholders, so the newly independent

company acquired a long "tail" of investors who knew little about its operations. Keeping them engaged in the company's affairs was a priority.

"Our challenge is to build on our heritage but establish a new identity," says Mr Charlton. "Our communications strategy is not just talking to investors but trying to integrate that with what we say to our senior management team, staff, suppliers and customers."

Mr Charlton says the website is an important communication channel and much effort goes into keeping it up-to-date. Changes to the Companies Act that removed the requirement to send a full printed copy of the annual report to all shareholders put a greater emphasis on the website.

Requiring investors to download the entire 120-plus page report would not have been very user-friendly, so they can now cut and paste sections, take notes and download spreadsheets.

Another innovation was to put an audiotape of the company's preliminary results presentation to analysts on the website within an hour of the event.

Carl Michel, chief executive of **Holidaybreak**, an education and activity holiday group, says the recent focus of improvement to his company's website has been to expand the space devoted to corporate social responsibility.

He explains: "There are more ethical funds and also more funds want to understand our policy on this. We have created additional tabs for that."

For a mid-sized company, attracting the attention of analysts and investors is always an issue. This has been heightened by "churn" among the analysts at the smaller houses that follow **Holidaybreak**. "We have to keep repeating our messages," says Mr Michel.

Best Investor Communication: BTG

Announcing a sizeable acquisition three days after Lehman Brothers filed for bankruptcy took nerve. Keeping shareholders on board while the deal was finalised was a huge test of investor communications, writes **Charles Batchelor**.

Yet, while financial markets trembled across the globe, **BTG**, a specialist UK pharmaceuticals company, pressed ahead with an agreed £218m all-share offer for **Protherics**. This deal, completed in December, meant that **BTG**, already the largest UK biotech group by market capitalisation, could gain greater scale and take drugs further down the development road, cornering a bigger share of the profits.

"A lot of effort went into preparing our investors for corporate activity and meeting them once the deal was announced to persuade them of its merits," says Andy Burrows, director of investor relations. "Completing the acquisition was seen as a major achievement in poor market conditions."

BTG has a number of strengths that

underpin its relations with investors. Unusually in a sector where most companies are small and take years, if ever, to produce profits, **BTG** has been profitable for the past three and a half years. Pre-tax profits were £3.4m in the six months to September 2008 and it has made "good progress" during the second half of the current financial year. Cost savings of up to £20m a year are expected from the **Protherics** acquisition and **BTG** had cash reserves of £57.5m at September 30.

But a company focused on expansion cannot rest on its laurels. "We need to bring along current investors, ensuring they understand our strategy, and attract new investors to increase liquidity," Mr Burrows explains.

BTG's website plays an important role. Mr Burrows says: "We strive to keep it up to date, easy to navigate and comprehensive." The site was revamped about a year ago to include more aids for investors. It offers half-hourly share price updates, a share price chart with data on relevant indices, a share price calculator and e-mail alerts.

Hands-on managers who were in on the ground floor

ENTREPRENEUR
The contenders have all been with their companies a long time, writes Jonathan Guthrie

Contributors

John Willman
Ross Tieman
Charles Batchelor
 FT Contributors

Jonathan Guthrie
 Enterprise Editor

Kate Burgess
 Investment Correspondent

Fiona Harvey
 Environment Correspondent

Phil Stafford
 Companies Reporter

Patrick Stiles
 Commissioning Editor

Steven Bird
 Designer

Andy Mears
 Picture Editor

For advertising, contact:
Robert Grange on:
 +44 (0)20 7873 441;
 robert.grange@ft.com
 or your usual representative

Support services company **Spice** started as a niche business maintaining electricity sub-stations in Yorkshire. It has become a large concern with 4,800 staff providing a wide range of services to utilities.

Simon Rigby, chief executive, led the buy-out of the **Freedom Maintenance** business of Yorkshire Electricity Group in 1997.

It was a move very much in the spirit of the times, as City investors put pressure on utilities to focus on their core businesses and spin off peripheral units. **Spice** started off deploying self-employed franchisees to cut the grass around sub-stations. But it has exploited the trend for outsourcing to the full.

"Maintenance was a good way to establish a relationship with customers and it then made sense to swim upstream with them," Mr Rigby says.

Spice now offers to utilities a range of services that includes designing electricity networks, bill validation and brokering energy for customers such as Marks and Spencer and **J Sainsbury**.

Last year the company read 20m gas and electricity meters and checked bills worth £65bn. "We are absolute nutcases," Mr Rigby chuckles, contemplating the

Entrepreneur of the Year: Robert Watson

Robert Watson traces the rapid growth of **Hilton Food Group**, the meat-packing business he runs, to 1996, when **Tesco** was centralising its meat supply system to cut costs and prevailed on three suppliers to create a joint venture based on a single facility at **Huntingdon**, writes **Jonathan Guthrie**. One of those businesses was **Foyle Food Group**, a family business set up in Londonderry in 1977 by Mr Watson and his father Archie.

"We were slaughterers and packers and supplied major retailers across Europe," says Mr Watson, 50. "In my role as chief executive of **Foyle** I had a lot of contact with retailers in continental Europe, which was useful when **Hilton** started expanding there."

Mr Watson moved across to run **Hilton** in 2002, which required him to set up a new management structure. "The UK was early into centralising meat packing, so we had a lot of knowledge that we could apply in other countries," Mr Watson says. "That expertise was first tested in **The Netherlands**." **Hilton** now has

scale of **Spice**'s operations.

Mr Rigby, 47, has reduced his original 50 per cent stake in the business to 9 per cent, partly in order to expand an employee share ownership scheme in which 2,000 members of staff participate.

The shares have endured some ups and downs since **Spice** listed on the stock market. "We are a ball on

life's beach, tossed on the waves and blown on the wind," says Mr Rigby.

As with any business, investors are nervous that **Spice** may not meet broker's forecasts. However, Mr Rigby is confident the company can achieve a 44 per cent increase in profits this year. In the 12 months to October 31 2008, **Spice**

increased pre-tax profits from £8.3m to £9.4m on sales £50m higher at £193m.

Alastair Beardsall, executive chairman of **Emerald Energy**, had to fulfil the role of chief executive too when he started running the business in 2003. "No one wanted to come and work at what was then seen as a basket case," he says.



Flexibility and experience pay off

state-of-the-art meat packing facilities in Sweden, Ireland and Poland as well.

The bulk of turnover comes from outside the UK. Sales rose from £306m to £378m in the year to July 13 2008, with pre-tax profits growing from £7.4m to £9.6m. Mr Watson says this performance has been driven by the company's flexibility: "We can remodel a big retailer's supply base to support their requirements. Often they want local products and to top up with

supplies from all over the world."

Flexibility also helped the business cope with such livestock epidemics as the mad cow disease crisis, during which Mr Watson represented the Northern Ireland meat industry in discussions with government. He received an OBE in 2000 for services to the meat industry and in 2005 was accepted into the **Entrepreneur Hall of Fame** in Northern Ireland.

Mr Watson describes **Tesco**, the business whose cost-cutting programme created **Hilton** as "very supportive". He says: "They are a tough retailer to work for but also a fair one. Your relationship with them depends on delivery."

Mr Watson is also keeping another family tradition alive. His father, who died many years ago, was a well-known horse trainer. Mr Watson, who spends his weekends in Northern Ireland and his weeks living out of a suitcase, owns a novice hurdler called **Fisher Bridge**, which, he says, "is doing OK this year". Like its owner, it is having a few wins at the moment.

£10m to more than £240m.

Asked how he did it, Mr Beardsall says: "We dug the right hole the first time that we tried." That is a laconic reflection on the high-risk character of hydrocarbon exploration.

The "right hole" was on a licence area in Colombia, South America where **Emerald** now has five wells. It is active on another four fields there.

Mr Beardsall, 55, also took action to shrink **Emerald**'s fragmented investor base, then made up of 30,000 individual shareholders. "Any successful company needs to know that it has a core of support," he says.

Emerald's shares have defied the fall in the oil price. "We have interesting assets in exploration and production," Mr Beardsall says: "We have \$70m in cash and we want to be among the leaders when the economy recovers."

Mr Beardsall is highly qualified. After obtaining a degree in quantum physics he studied the actuarial discipline and accounting. He then worked for oil services group **Schlumberger** for 13 years.

Turning **Emerald** round has required long hours and a lot of travelling. Mr Beardsall, who has four children under the age of eight, says he could not have done it

without the support of his wife.

Chris Aspinwall started with **Fidessa**, a trading technology company, in 1986 as a software engineer, as the City underwent the regulatory turmoil of Big Bang, followed shortly by the market collapse of 1987.

Mr Aspinwall now faces the challenge of steering the group through another time of crisis in financial markets as its chief executive. However, as he explains, when he first joined **Fidessa** it was a general IT consultancy.

The decision to focus on trading software took place in the early 1990s. The key product was a workflow software system for big, complicated investment banks. Mr Aspinwall led the team that produced it.

Fidessa floated in 1997 and sold its last non-core asset, a helpdesk business, at the turn of the millennium.

Mr Aspinwall, 46, calls the current environment "challenging" but adds "a characteristic of our management style is that we have always taken a cautious view on debt, which is why the company has a cash balance of £33m".

The business has grown organically, rather than through acquisition. **Fidessa** raised pre-tax profits £19m to £44.5m last year on turnover £54m higher at £189m.

Newcomers share a commitment to customers

NEW COMPANY

As well as service, the companies are focused on growth, says **Ross Tieman**

For all its ups and downs, London's Alternative Investment Market is proving a fertile nursery for the mid-cap sector of the London Stock Exchange.

All three contenders for the New Company of the Year award graduated from Aim in 2008.

Superficially, they are diverse. Delivering pizzas seems to have little in common with checking energy bills or caring for the house-bound.

Yet remarkable growth in revenues and profits are not the only factors that unite Mears Group, the award winner, and runners up Domino's Pizza UK & IRL and Spice, an outsourced supplier of services to utilities.

Each business displays a ferocious commitment to growth, and a remarkable expertise in motivating and managing dispersed employees to deliver high quality services to customers.

Say **Spice**, and most people think of food or music. Simon Rigby and his team wear their sobriquet, the Spice Boys, with wry pride. The name, an acronym from the group's value statement – Society, People, Innovation, Customers and Excellence – means little at the operating level, where staff and franchisees are widely assumed to be employed by the utilities it serves.

For Spice, says its founder and chief executive, is a product of UK utility privatisation and liberalisation, a provider of many complex technical services that are a distraction for the now-competing energy and water suppliers and distributors. Spice was born in 1996 as a management buy-out from regional distributor Yorkshire Electricity York. It started as an outsourced



Maintenance arm: part of Mears' business takes care of all the little niggles that are the owners' responsibility in rented properties

New Company of the Year: Mears

Thirteen years ago, Bob Holt brought to the Alternative Investment Market (Aim) a £10m turnover company providing building maintenance services for social housing, writes **Ross Tieman**.

In 2009, Mears Group, winner of this year's New Company Award, is expected to achieve revenues of £500m, with almost all the increase achieved by organic growth.

This success, in an apparently unpromising field, is a formidable story, not just of contract fulfilment, but of personnel management.

Mr Holt and his management teams have perfected the art of motivating and organising people who are earning the UK minimum wage, or little more, to deliver

high-quality services to local authorities across the country.

Mears has two business lines serving a single set of customers, the Local Authorities that own Britain's 5m units of social housing. Both, says Mr Holt, are equally 'tenant-centric'.

Mears' maintenance arm works under long-term contracts to take care of all the little niggles that are the owners' responsibility in rented properties – blocked drains, broken windows, detached tiles and broken-down boilers. A "men in vans" business with 1,500 employees, says Mr Holt.

Its Domiciliary Care contract arm employs 4,000 carers, often women working flexible

hours, who call on residents designated by Social Services to provide the ancillary help necessary in their lives. Its clients are typically elderly and infirm, so Mears staff make sure they are up and about, their homes clean and tidy and stocked with food, and so on. It is a job with plenty of responsibility for the welfare of others.

Since Mears is often responsible from the "problem" phone call through to verification of services delivered at thousands of scattered locations, quality control and staff motivation are critical.

Mr Holt and his team have developed a big inhouse community programme, giving staff two days paid leave a year to participate in projects such as equipping

kitchens in a local community centre, or tidying civic gardens. "We have a strong community spirit within the company," says Mr Holt.

In the half to end-June 2008, Mears maintained its relentless growth, with revenues up 48 per cent to £203m and a pre-tax profit advance to £7.6m, and graduated from Aim to the main London market. Since an economic downturn does not reduce need for care or repairs, Mears continues to invest in expansion.

"If you didn't manage for the long term, you would be an idiot," says Mr Holt. "I think what infrastructure we need for next year, and what people, and I work with my team to put that in place."

supplier with a single £3m-a-year contract and now has £400m of annual revenues. It graduated from Aim to the main market last July.

If organic growth has provided 20 per cent of the turnover increase in the past couple of years, bolt-on acquisitions – often costing

just a few million pounds – have helped take the overall rise to 60 per cent.

In the half to end-October, Spice again announced profit progress, a 13 per cent pre-tax increase to £9.4m, on sales ahead 34 per cent to £192m.

The company's 4,800 staff

and 2,000 franchisees maintain 160,000 electricity substations for six electricity distribution companies; they install 50,000 water meters each year, and take 20m readings; they check the complex invoices received by the nation's electricity suppliers from power stations.

Mr Rigby is a great believer in motivating staff with stakes in the company. Though the board owns only 9.5 per cent, "we have got 2,000 people in the share-save plan. I want to keep them working for this organisation".

The credit crunch offers

opportunities, he says. "I'm probably paying just three times operating profits for businesses with scarce skills." Picking which to buy is made easier, because rising regulatory standards and targets provide a roadmap for growth. "I can see where we're going for the next 20

years," he says.

Chris Moore, chief executive of Domino's Pizza UK & IRL, takes a similar long-term view.

The pace of his company's growth is partly shaped by a 10-year development plan written into its contract with Domino's Pizza Inc, which is

quoted on NYSE. The contract states it must open 27 outlets a year.

Beating that target – which it always has done – gives the British arm a discount of 30 basis points on the 3 per cent royalty it pays the US company on its franchise revenues. In short, fast growth fattens profits in two ways – revenues are greater and a smaller proportion of them flows to the US.

Growth is also about time: Chris Moore, chief executive, says that as a generation that grew up with takeaway and home-delivered food matures, it maintains the habit, while the next generation joins the clientele.

Home-delivered pizza seems so ubiquitous, it is hard to remember that Domino's, the UK market leader, and master franchise holder for the British Isles, was founded in 1985, but graduated from Aim to the main market only last May.

Mintel, a market research group, reckons Domino's has 16 per cent of Britain's £1.5m home delivered cooked food market, and expects market growth of 5 per cent a year.

But Domino's sales growth outpaces the market, recession notwithstanding. Pizza is still a treat, but an affordable one, consumed at home if people go out less.

Moreover, spending on technology is cutting delivery delays. Thirty per cent of Domino's sales are made between 5pm and 9pm on Friday and Saturday evenings.

Internet ordering – now 25 per cent of the total – reduces staffing needs and phone backlogs, puts the order in front of the chef, and increases the amount of food and extras purchased.

Meantime, the recession makes it easier to hire staff. Quick delivery and unfailing attention to quality are the keys to success, Mr Moore says.

Though their businesses are so very different, it is an assessment with which Spice's Mr Rigby and Mears' Bon Holt would certainly agree.

Wide-ranging restructuring bears fruit for Asterand

BEST PERFORMING SHARE

A year was spent reorganising the company, reports **Charles Batchelor**

Asterand, a supplier of human tissue samples to the drug development industry, expects to report its first annual profit this month.

After a year tightening up operations on both sides of the Atlantic, a wide-ranging management shake-up and the replacement of two-thirds of its sales force, 2008 was when these changes started to pay off.

Edison Investment Research, which conducts paid-for research for clients, forecasts a pre-tax profit of £3.6m in the year to December 31 2008 on turnover doubled to £15.1m.

"We broke even in the first half and the second half is always stronger," says Martyn Coombs, who was brought in as chief executive in March 2007 from Amer sham, the pharmaceuticals group bought by General Electric. Within three months, he announced a strategy to shake the company up.

Asterand may still be small – market capitalisation is about £18m – but it is the biggest in its field and it has high hopes of increasing its share of a rapidly expanding market. The company takes human tissue that would otherwise be incinerated after surgery and supplies it to drug manufacturers seeking to test new products on human tissue.

The company has deals with about 40 hospitals around the world to supply the tissue for which the patient receives no payment. As well as acquiring diseased tissue, Asterand obtains healthy tissue from the same patient to allow the drug development companies to understand more about the disease they are treating.

The focus of Asterand's work is cancer, although it also supplies tissue to companies working on treatments for diabetes and obes-

ity. Russia has been a big source of supply, but Asterand is reducing its dependence, after the Russian authorities imposed a temporary restriction on bio-material exports in 2007.

As well as ensuring greater reliability of supply, a wide choice of geographical locations is valuable, because it allows the company to supply tissue from a range of ethnic groups.

The main centre of activity is Detroit, where two-thirds of its 80 staff is based, but it does important research at Royston in Cambridgeshire.

Asterand can trace its origins to March 1996, when Pharmagene, a biotech company, was established in Royston. In August 2000, Pharmagene raised £37m through a London stock market listing. Just before Pharmagene listed, Asterand, then called BioSamplex, was established at the Karmanos Cancer Institute in Detroit.

Outside investors backed

Asterand and in January 2006 the company obtained a London stock market listing by a reverse takeover of Pharmagene.

The shares of the combined group were valued at 14p but subsequently fell back until the results of the 2007 changes began to show through. During 2008, the shares rose nearly 160 per cent to 14.5p.

There are good prospects in providing consultancy to tissue laboratories

They reached a 52-week high of 17.75p on January 9, but have since retreated slightly. Daniel Stewart, the house broker, has set a target price of 22p.

A big boost to the share price last year came from the announcement of a deal to license a compound with

the potential to treat eye diseases for a \$6.25m initial fee to Allergan, a Californian biotech company. Payments could rise to a total of \$56m if the drug is successful.

Asterand inherited a drug discovery business from Pharmagene but decided to stop further development in this field. However, it does see a good business in licensing these drug compounds for other companies to develop. BTG, winner of this year's Best Investor Communication award, is trialling an anti-migraine compound under licence from Asterand.

"We have some pretty confident shareholders out there," says Mr Coombs. He identifies several factors that will keep the company growing, including a market estimated at \$700m in size and expanding at 20-30 per cent a year.

Pharmaceutical companies are increasingly making use of human tissue rather than animal tissue to trial drugs, but suppliers are small and fragmented. Academic institutions currently supply a large portion of the market but they do not take a commercial approach to the business.

Asterand is in a strong financial position, with £6m-£7m of cash and a £2m line of unused credit also available.

On the risk side of the equation are a continuing, if reducing, dependence on Russia for supply of tissue. Daniel Stewart has also pointed to a high exposure to three customers, each representing more than 10 per cent of the business.

One line of business where Mr Coombs sees good prospects is providing consultancy to other tissue laboratories. This follows the award of a £1.4m contract by the US Department of Defense to review its tissue repository and assess its viability for research.

Mr Coombs says he has no plans to pay a dividend, since spare cash will go into research and development and into a "buy-and-build" strategy – acquiring the business of some of the competing academic suppliers of human tissue.



An employee at the Detroit facility checks a sample

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Mid-Market Companies

Harry Nimmo does it again

SMALLER COMPANY FUND
The Standard Life manager wins for the second time, writes **Kate Burgess**

Two years ago Harry Nimmo had two reasons to celebrate: 10 years at the helm of Standard Life Investment's UK Smaller Companies Trust, and winning the PLC Award for the best performing fund investing in UK smaller companies.

This year Mr Nimmo has won the PLC award again, although the environment for investing in small companies could not be more different.

Two years ago, smaller companies had outperformed big companies by some margin. Now they are in their second year of being pummeled by an economic downturn the like of which few managers have seen or imagined.

Mr Nimmo has also taken on £32m in assets of Gartmore Smaller Companies trust, which will double the Standard Life fund when Mr Nimmo has finished the process of reshaping and absorbing the portfolio.

He is doing so against a tough

Mr Nimmo uses traditional valuation techniques, such as prospective earnings per share and dividend yields

backdrop. The Extended Hoare Govett Index of smaller companies fell 21 per cent in the last three months of 2008, as did the assets of SLI UK Smaller Companies trust.

Over the whole of 2008, the index fell 43 per cent and the trust's net assets dropped 28 per cent. However, over five years the trust's assets rose 41 per cent while the index fell 7 per cent. That performance is reflected in the shares' discount to asset value of 10 per cent against an average discount of 17 per cent in the investment trust sector.

Mr Nimmo's style suits the current climate better than that of many smaller companies managers. The fund has a diversified portfolio of about 45 stocks which are held for long periods.

Its volatility is substantially lower than the smaller company sector, traditionally prone to sharp falls and rises.

"We are risk-averse and orientated on quality and growth momentum," says the former land surveyor.

Mr Nimmo says he targets companies that he thinks are on the way up and will grow into big companies. His job is to identify potential in companies that the rest of the market has

missed. He is not interested in recovery stocks, hunting out bargains or unearthing undervalued opportunities whose fortunes depend largely on upturns in the economic cycle. That is why his fund underperformed rivals in 1999 and again in 2003.

The stocks he picks are "high quality", with robust and visible earnings streams, recurring revenues, clear business models, strong balance sheets and steady cash flow.

He uses traditional valuation techniques, such as prospective earnings per share and dividend yields and makes a beeline for niche players with a global reach.

Key to his investment process is Standard Life's "matrix", a quantitative screening process that ranks companies on eight factors such as the direction of analysts' earnings forecast revisions, price momentum and directors' dealings.

In the small-cap sector, directors' dealings are particularly relevant, as they are often founders and substantial shareholders.

Mr Nimmo is a strong believer in cutting losses and is ruthless in dropping stocks. Last year, he sold Aquarius Platinum, Bateman Engineering, Synergy Healthcare, ROK and Wellstream, Bowleven.

The fund's biggest holdings include Asos, the online fashion retailer, which was 75p when he bought it three years ago and is now above 300p.

Abcam, which distributes antibodies used for drug research, also features high up his list of holdings. "It is the website of choice for researchers," says Mr Nimmo.

Mr Nimmo is also a fan of Telecom Plus, which provides discounted utility services. He points out it was last year's best performing share in the FTSE All-Share index. This year it has won the PLC award for company of the year.

Also among his top holdings are bookmaker Paddy Power, Chemring, maker of anti-missile decoys and pyrotechnics, Autonomy, the enterprise software company that has continued to win big contracts in a wide range of markets, and Connaught, the integrated services provider.

During 2008, Mr Nimmo added four holdings to the portfolio: Cranswick, the food manufacturer, AG Barr, the soft drinks maker, Redhall, the engineering services group, and PZ Cussons, producer of Imperial Leather soap with a strong business in Africa.

He has also invested heavily in groups that have brands they can roll out to a much bigger client base, for example Domino's Pizza, shortlisted for New Company of the Year.

Mr Nimmo picked Domino's Pizza as a potential winner two years ago, when two of the fund's top 10 holdings were winners of PLC awards.



Williamson Square in Liverpool was paved by Marshalls ahead of the city's year as European Capital of Culture

Carbon cycle fires business

SUSTAINABILITY
Responsible sourcing and waste reduction are making progress, reports **Fiona Harvey**

Plastic wrappings do not break down when land-filled and can choke fish and birds, so making them more environmentally friendly has been a key focus for **British Polythene Industries**, Europe's biggest manufacturer of polythene film, bags and sacks.

The company is the biggest recycler of polythene waste, and has developed techniques for processing a wide range of materials, including plastic films used in agriculture and food.

Although plastic bags can harm marine and animal life, and although the large amount of energy that goes into their production also concerns environmentalists, the benefits of plastic are often overlooked.

Wrapping food and drink in plastic means less of it is spoiled or damaged, so reducing waste. The lack of such wrapping, and refrigeration, in developing countries can lead to levels of food wastage as high as 40 to 50 per cent, compared with about 2 per cent in rich countries.

BPI has made its bags and packaging thinner to save energy and materials. Biodegradable plastic is often seen as a way to avoid some of the problems with the material, but BPI does not think this can be the whole answer. It quotes a Canadian study that found to replace plastic in bags and wrapping with biodegradable material would require vast amounts more energy and lead to greater greenhouse gas emissions.

Achievement in Sustainability: Marshalls

Marshalls, which supplies paving exterior lighting and other features for gardens and streets has won the sustainability category of this year's awards, writes **Fiona Harvey**. The company has been one of the first in the world to put "carbon labels" on its products.

Carbon labels provide information on the amount of carbon dioxide that was emitted in the manufacture of the product they are attached to.

Producing a carbon label requires extensive research into all the factors involved in the production of goods. The entire cycle – from raw materials and how they are handled, to the processes required to finish the final product and transport it to the shops – is included in the calculation. Even the emissions involved in using and disposing of the product are included in Marshalls' case.

Each of the company's paving stones for the domestic market now carries a label showing the carbon emissions generated in manufacturing a square metre of the stone.

Only a handful of companies have so far produced carbon labels for their products. They include Walkers Crisps, which put the labels on some flavours of its crisps, and companies such as Innocent, the juice company.

Like Marshalls, Walkers and Innocent worked with the Carbon Trust, a UK government-funded

body charged with helping businesses to cut their greenhouse gas emissions, to develop their carbon labels. The Carbon Trust is trying to assemble the methodologies needed to enable more companies to draw up carbon labels for their products and services, according to a uniform standard.

Examining the processes that go into manufacturing products can present opportunities for cutting the emissions from those processes – which can cut costs.

Marshalls has managed to reduce by nearly 40 per cent the emissions generated in manufacturing its block paving range.

The company took the decision to put carbon labels on all 503 of its products for domestic consumers – even though few consumers would have asked for such information. Using the labels can help customers to decide which products they want to buy, the company says. It sees the labels as a way of differentiating its products from rivals.

Consumers can also calculate the carbon footprint of the new gardens they are planning using a domestic carbon calculator on its website.

This is intended partly to help people, if they wish, to create a carbon-neutral garden, by offsetting the emissions produced by the manufacture of their materials through buying carbon credits online – or, if their gardens are big enough, by planting trees.

efficiencies has been a key part of the process. On learning of being shortlisted for this award, Steve Vaughan, the chief executive, gave a special mention to Andrea Short, the environmental support manager, but also noted that all staff had been involved in finding ways to save energy, helping suppliers achieve the necessary accreditation, and ensuring they all get into the recycling habit.

Information technology companies have been keenly trumpeting their environmental credentials recently – Dell Computer has been planting trees to offset its carbon footprint, while companies such as Sun and Hewlett-Packard have been trying to reduce the energy use of the equipment they sell.

RM, one of the biggest suppliers of IT to the UK's education sector, is no exception. The company offers schools an Ecoquiet PC, which has one of the lowest energy-consumption profiles of any desktop computer.

But RM also sees an important part of its mission in communicating the green message to its customers – schools. So it produces a wide variety of publications and other classroom materials intended to show teachers and pupils the sorts of actions that they and their families can make to reduce damage to the environment.

These can be distributed to pupils and used in lessons. For its own operations, RM has ensured that it uses only recycled paper, recycles 60 per cent of the waste from its own operations, and has found a variety of ways to improve its own energy efficiency.

The company also supports the Woodland Trust – a donation is made to the charity for every Ecoquiet PC sold.

Groups that have thrived in their maturing sector

BEST TECHNOLOGY
There is money to be made from the right innovations, says **Phil Stafford**

In the past 20 years, spending on technology by business grew on average at four times the normal rate of gross domestic product.

But that heavy investment means the technology industry can no longer be regarded as a small but growing part of the economy. Nowadays, workers demand Blackberrys and laptops, data storage and security requirements rise.

In the past four years, technology spending in the UK has more closely matched GDP growth and, as the wider economy contracts rapidly, companies have found clients wary of investing in large projects.

At the same time, companies have increasingly turned to technology as a way of cutting costs by automating processes or complying with more stringent regulations.

Few, for example, would consider the banking and investment industry in 2008 to be offering growth opportunities, but it is highly dependent on cutting-edge yet reliable technology.

Fidessa, the trading technology software maker, has carved a niche for itself as the market's best provider of technology that connects

market participants, such as hedge funds, to trading platforms.

Banks and asset management groups have set up rival exchanges in response to what they view as high charges from Europe's main bourses for trading. Alternative equities trading platforms, such as Turquoise and Chi-X and dark pools continue to develop in competition with the LSE and Europe's other established exchanges, especially since the Markets in Financial Instruments Directive.

Another area that has remained relatively unaffected by spending cuts is telecommunication networks, as online video content has exploded on the web, whether through the ubiquitous YouTube or online TV sites that allow constant video streaming.

The global recession has, if anything, accentuated the problem, as people prefer to stay at home and use their computers or download a video-on-demand rather than go out.

It has been a boon for **BATM Advanced Communications**, the Israeli telecoms equipment maker. Last year was something of a breakthrough, as its technology – caught in the dotcom hype at the turn of the century – was sought by some of the world's largest telecom companies.

In some ways BATM's business works against a recession. The group makes the complex switches that

route and regulate data traffic across the internet and the explosion in rich online content such as video has increased demand.

The group expects to announce this month that sales last calendar year rose 35 per cent to more than \$132m. Nor is this a one-off. The figures for 2007 saw revenues up 32 per cent and pre-tax profits up 190 per cent.

Environmental regulation has moved further up the agenda in recent years, notably in the wake of the the Stern Report in late 2006 into

People are staying at home and using their computers or downloading a video rather than going out

the economics of climate change.

New European Union legislation regulating the control of hazardous substances, has produced opportunities for **Oxford Instruments**, the high-technology equipment maker.

The group, the first technology business to be spun out of Oxford University 50 years ago, has been refocusing on instruments for nanotechnology, the design, manufacture and control of materials on the smallest of scales.

A range of commercial

activities are being rethought, as nanotechnology is used in developments in biotechnology, electronics and energy.

The company has also benefited from the Chinese government's investment in areas such as nanotechnology and using light emitting diodes for illumination.

Yet it, too, has been hit by the slowdown and has curtailed further research and development in hyperpolarisation, as pharmaceutical budgets are cut.

Ricardo, the engineering consultancy, is another that has benefited from tighter standards on fuel efficiency and emissions targets.

The group advises the wind power and military markets on ways to improve efficiency in their products but is best known for its pioneering work in the automotive industry.

Most of its North American business was wiped out, as Ford, GM and Chrysler fell victim to the credit crunch, but it was still able to report an 11 per cent rise in interim pre-tax profits.

It helped design engines for passenger vehicles such as BMW's Mini and the Ford Transit, but also works on the auto industry's most eye-catching projects. They include the Bugatti Veyron, one of the fastest and most expensive cars in history.



Oxford Instruments has become more focused under its new management

Best Technology: Oxford Instruments

Praise for Oxford Instruments' technology is not exactly rare, writes **Phil Stafford**. As the group celebrates the 50th year since it was spun out of Oxford University, it can look back on a host of enviable achievements, including the world's first MRI instruments, the world's first superconducting magnet and creating the first detector to see boron using an electron microscope.

Its current success is the result of a renewed focus by management on commercialising its discoveries, particularly in the fields of environmental legislation and nanotechnology investment across a range of markets.

A decade or so ago, it had developed something of a reputation as a company that was run by boffins focused on producing the finest scientific instruments, with little thought as to whether there were any customers for them.

Since Jonathan Flint, chief executive, and Kevin Boyd, finance director, joined in 2005 and 2006, respectively, the group has shed some businesses and emerged more streamlined.

A significant field of activity for the company is nanotechnology. At dimensions typically less than 100nm, the classical laws of physics give way to quantum mechanical effects. The fundamental physical, chemical

and biological properties can be tailored to create super-advanced performance in materials.

The group has also looked at environmental problems. It has long been a world leader in superconducting, and still sees strong demand from big customers for MRI equipment.

However, it is also involved with International Experimental ThermoNuclear Reactor (Iter) at Cadarache in France, one of the longest-term projects to address the global energy crisis. Although lacking the high profile of the Large Hadron Collider, the project is expected to last 30 years and cost more than \$9.3bn.

The main problem for current nuclear power stations, which operate on nuclear fission, is the radioactive waste.

By contrast, Iter aims to demonstrate the scientific and technical feasibility of fusion power. This mimicks the energy processes of the sun, in which hydrogen atoms are fused to create harmless helium, thus offering the potential of limitless clean energy. Oxford Instruments supplies the superconducting wire for the magnets critical to the project.

Other environmental-related technologies it is involved in include designs for energy-efficient high-brightness light emitting diodes.

Shelter in small caps

Continued from Page 1

strategies that have served them badly in the past 18 months.

"This raises important issues for smaller companies," says Mr Hopes. "There is a need for development capital, as most venture capital organisations have exited, while equity investors have found them too risky and pulled out."

A return to the growth of earlier years could make the smaller caps attractive once again. And it is worth remembering that investing in smaller companies has proved to be a successful strategy over the longer term.

Over the 54 years for which HGSC data are available, the total return on the small caps has been 14.8 per cent a year, compared with 11.8 per cent for the All-Share.

To put this in cash terms, £1,000 invested in 1955 in the HGSC index would have reached £1.67m if dividends were reinvested, while the same sum in the All-Share would have produced £416,000.

Impressive though that is, it is still much lower than the figure last year, when the £1,000 invested in the HGSC since 1955 would have been worth £2.76m.

Small caps have still outperformed the blue chips over the longer term – but too many more years like last year will take their toll.