July 1, 2022

How a **Solid Strategic Investor Relations Plan** = Successful Capital Raise

"We have presented this white paper to provide a general focus on Investor Relations strategic activities to support a successful raise for micro-cap companies in today's marketplace."

Amato and Partners, LLC

Investor Relations Counsel

AMATO AND PARTNERS

investor relations counsel

INTRODUCTION

A CEO's primary responsibility is to create shareholder value. Part of that value depends on properly funding the company. With emerging growth companies, the need for capital to fund continued growth is omnipresent and should be addressed thoughtfully and strategically.

STRATEGIC INVESTOR RELATIONS

A capital raise for a company should focus on a strategic IR plan that will mitigate your risks, manage the cost of capital and provide the company a successful outcome. Strategic IR focuses on planning how needed capital gets raised. This is accomplished by choosing the right investment bank for the lead, getting the correct syndication, distributing the shares as broadly as possible, obtaining quality research and maintaining a program of regular contact with the investment community. The odds of achieving these goals can be enhanced by setting forth a plan to broadly guide your actions as you deal with the capital markets and their moving pieces. Since these are key considerations affecting a successful capital raise, it is important to have a solid investor relations plan. Amato and Partners refer to this approach as 'Strategic IR'.

This white paper focuses on each of the key elements of a solid strategic IR plan.

IDENTIFYING AN UNDERWRITER

Choosing an Investment Bank is the central feature of any capital raise. The goal of this process is finding a firm which understands your business and has the team and bandwidth to get the deal done. You should talk to several underwriting firms to determine which one is right.

The size of a raise will dictate the profile of the investment bank whether it is the lead or part of a syndication. Regardless of the size of the bank, its' demonstrated ability to complete a transaction is paramount. A company may not have the luxury of choosing from a broad range of investment banks. The capacity of a bank forces them to identify clients most closely matching their size and capabilities.

Factors to consider in selecting an underwriter are whether you need a national or regional reach from your bank and whether the banker is strong in retail or institutional capability. Amato and Partners is very experienced in orchestrating a workable syndicate of banks. We know and understand which banks play what role in a deal and we know what banks work best together. This overall syndicate should be able to distribute your shares to a wide investment base. The breadth of distribution is initially developed by the capital markets group within the lead bank. The distribution is driven by their relationship with their investor base.

Once the underwriting is done, the investment banks must be capable of continuing to make a market in your shares and provide ongoing after-market support which would include, at the appropriate time, analyst coverage.

STRUCTURING THE CAPITAL RAISE

Raising capital for micro and small-cap companies is difficult work. A compelling company story and a clean cap table are important factors in pricing a raise. If a company lacks these attributes, in order to entice potential buyers, investment banks may provide incentives to investors.

This can be accomplished by adding warrants and (in the case of a secondary raise) discounting the share price from the prior close. Warrants can serve to increase your capital base when your stock price rises past their exercise price and if exercised provide non-dilutive capital to the company. However, fears of dilution can also set a ceiling on your share price.

Warrants are not inevitable. A clean cap table and developing a strong company message through a comprehensive IR program can minimize the need for warrants or discounts.

SELL-SIDE RESEARCH

Keeping a company in front of investors is an ongoing process. A positive image within the investment community is crucial, and serious company consideration should be given to using an investor relations firm to assist in developing and maintaining this image.

Relationships should be developed with the appropriate analysts within investment banks and analysts at non-investment banks that also follow your industry. The goal for a company is to have an industry analyst initiate coverage on the company. This endorsement is a very important factor for disseminating current and updated information to shareholders and potential investors interested in the company. Analysts help investors evaluate and interpret the potential performance of an investment in your company’s securities by monitoring the financial and other information available to them.

Analysts will request management interviews and visits to your company. As a result, it will be important to have an integrated and effective company communication process to provide timely and accurate information to analysts and the investing public.

Selected investor conferences, where your appearance is hosted by an analyst, offer excellent and immediate exposure to the investment community. Presenting in such venues offers broad and immediate feedback – on investor's views of your company, as well as your skills at presenting.

NON-DEAL ROADSHOWS

It's hard to overstate the long-term value of building and strengthening relationships with investors via face-to-face meetings. Ongoing non-deal roadshow events are the most reliable means for a company to build a strong investor database.

Many investors want an opportunity to do a 'deep dive' into your company's business model. These conversations often take place better in a non-deal roadshow situation. Be sure your expectations are correctly set, since it's likely new investors will want to 'kick the tires' several times before they decide to invest – it's not usually a one-and-done scenario.

In-person meetings also allow you to gain insights into what your investors see in you, and how they evaluate your organization versus peer companies in which they also might have holdings. Many investors do substantial market research on your industry and competitors and learning that intelligence can also be quite helpful.

A long-term strategic IR plan can impart a greater knowledge of your company and management to investors. This type of shareholder base can provide a strong and extensive root system to tap into when you are raising capital.

SHARE LIQUIDITY & OWNERSHIP

A balance between institutional and retail investors is desirable. Trying to get this balance right is very challenging. It really doesn't suit any long-term capital strategy if 90% of shares in the float are in limited hands. At best, it means that they hold onto the shares and this may decrease liquidity. Large shareholders can easily end up either having too much influence or placing downward pressure on the stock when they decide to sell.

Daily share volume is a function of the public float. We regularly see micro-caps with liquidity so small that it is practically impossible to trade any amount other than a nominal one without seriously affecting the market. Ideally, a company wants any underwriting to broaden the public float and increase trading liquidity by raising capital from as broad an investment base as possible.

CONCLUSION

Selecting an objective outside advisor, such as Amato and Partners, to work with your company in developing a strategic IR plan should be seriously considered as a key element of your approach to the capital markets. Amato and Partners will formulate a plan tailored to your company's needs and provide the experience and market knowledge to assure a timely executed strategy for the capital raise.