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Pan-European survey on investment practices in SMEs

With the support of



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European investors interested in investing in SMEs were invited to participate in a survey on investment practices between January 9 and February 10, 2014.

In this survey, Actifin and Tradinfo sought the main elements, beyond investment profile, that characterised an investment decision: location, sector, listing markets, listing profile, relationship with management and hierarchy of a selection of investment criteria. Finally, the respondents gave their suggestions on how SMEs could improve their Investor Relations and better promote their share.

In total 62 institutional investors participated to the study, representing 8 major European financial regions in Europe: Austria, Belgium, France, Germany, Portugal, Switzerland, the Netherlands and the United Kingdom.

We would like to express our gratitude to all participants for their contribution to the survey. In addition, we also would like to thank EnterNext, an affiliate of Euronext dedicated to the promotion and development of listed SMEs, for their support in conducting this survey.

Actifin and Tradinfo, February 2014

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EXECUTIVE SUMMARY

European investors eye SMEs positively. That is the overall outcome of this study, which was conducted among institutional investors based in eight major financial market locations in Europe.

Taking into consideration the good share performance of SMEs in 2013, one of the objectives of the study was to find out whether the interest was still strong in 2014.

The outcome of the study confirms that SMEs succeed in keeping European investors interested, however this is not a free ride. The interviewed investors stipulate that SMEs have to comply with certain conditions in order to be added to the short list. In particular: access to management as well as quality, consistency and regularity of the disseminated information.

■ Small caps succeed in raising interest from investors

Although most of the investors have a natural preference for companies with a market cap above €500 million, a large majority of respondents (77%) have indicated they are also investing in listed companies with a lower capitalisation.

■ Euronext stock exchanges are in favour

When excluding their domestic market, German fund managers appear to have the most appetite to invest outside their home markets, followed by the English, Portuguese and Belgians.

Euronext, with its exchanges in France, Belgium, Portugal and the Netherlands, was mentioned unanimously as the most invested market by the respondents*. Alternext was cited by a majority of participants (55%) as a market where they also invest.

**The majority of the respondents are based in the European continent.*

■ Liquidity is not necessarily a discriminating criterion

A majority of the respondents have confirmed that they do not condition their investment decision on free float (55%), nor on volume of traded stocks (48%). This was an unexpected outcome.

16% of the respondents indicated that the free float should be above €100 million and for 26% the average daily volume should be at least €0.1 million.

■ SMEs remain significant in the allocation of investment portfolios

More than a third of respondents has indicated that they have a minimum of 20 SMEs in their investment portfolios. Among the respondents, 19% have indicated that they even keep holdings in more than 50 SMEs.

■ Investment horizon is mid- to long-term

A large majority of investors invest in small caps and midcaps on the long-term. 87% of them have indicated that their average investment horizon is above 1 year, while 55% have an horizon of more than 3 years. It seems that investors want to provide sufficient time to companies to reach their potential and to create value for their shareholders.

■ The average investment is more than €0.5 million

42% of respondents invest, on average, more than €0.5 million. A third says they invest less than €0.5 million.

■ Increasing investments foreseen in SMEs in 2014

SMEs succeed to raise interest in 2014. Investors consider stabilising or even increasing (42%) their investments in SMEs in 2014.

■ Investors want to meet with management of companies they invest in

Not surprisingly, before investing in an SME, a large majority of investors (79%) prefers to meet with management. It's a prerequisite for 87% of them when they become shareholder.

This proximity is characteristic for the relationship between SMEs and investors. When they subscribe on a long-term basis, they expect company management to allocate a significant part of their time to meet investors.

■ Two improvements suggested: better availability of management as well as more regular and transparent information provided

The first recommendation from investors is that management of SMEs need to allocate a substantial part of their time to meet investors in their home markets as well as in the major financial places in Europe.

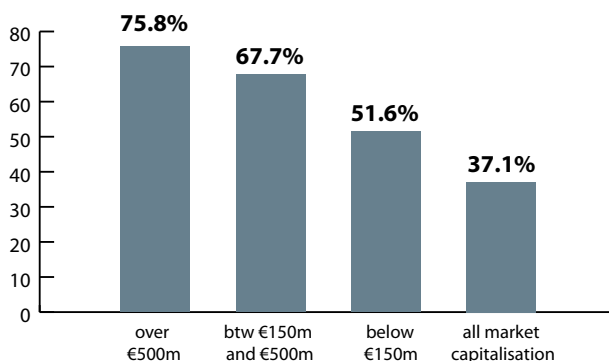
In addition, investors request that companies communicate on a regular base information that is qualitative, transparent and honest, whatever is their listed market.

ANALYSIS OF THE STUDY RESULTS

■ Characteristics of investments in SMEs

77.4% of the participants invest in SMEs with a market cap below €500 million.

Exhibit 1: What is the level of capitalisation in which you invest?



Total response is over 100% as multiple answers were possible.

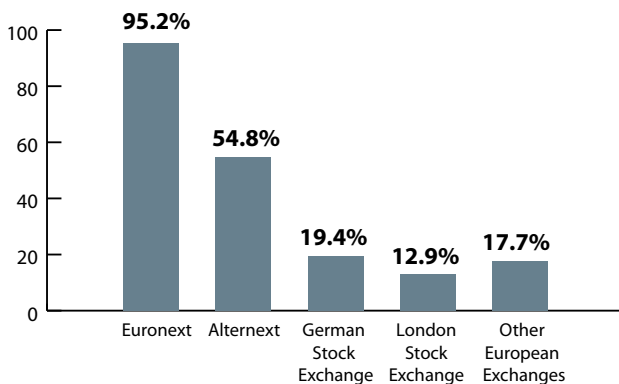
37.1% of the respondents indicated that they would invest in an SME without taking capitalisation into consideration.

While the results tend to show that the higher the capitalisation of a listed company is, the more interested investors there are. However, still 51.6% of the respondents invests in SMEs with market capitalisation below €150 million.

Only 22.6% of the respondents are exclusively interested in companies with a market capitalisation over €500 million. This means 77.4% of them show interest in companies with a market capitalisation below €500 million.

95.2% of the participants invest on the Euronext exchanges

Exhibit 2: On which exchanges do you invest?



Total response is over 100% as multiple answers were possible.

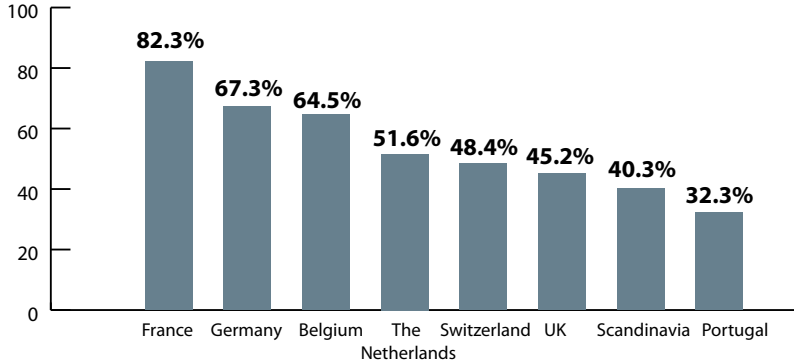
Not surprising, almost all respondents have indicated to invest in their home market: 95.2% invest in Euronext exchanges in Amsterdam, Brussels, Lisbon and Paris. More than half (54.8%) invests in Alternext.

In addition, the two other European exchanges that come out from the survey are the exchanges in Frankfurt and London, which respectively attract 19.4%, and 12.9% of the respondents.

Finally, one third of the respondents indicated they invested in all exchanges.

German investors have the most appetite outside their home market

Exhibit 3: In which countries do you invest?



Total response is over 100% as multiple answers were possible.

France (82.3%), Germany (67.3%), Belgium (64.5%) and the Netherlands (51.6%) came out as the countries in which the respondents are most active. Please note that the majority of the respondents are based in the European continent and that there is an obvious strong bias for investing in the home market.

When we exclude the bias effect, it is interesting to note that German investors have the most appetite to invest outside their home markets, followed in order by investors from the UK, Portugal, Belgium, the Netherlands, Switzerland, France and Austria.

A fourth of the respondents said they invested throughout Europe.

■ **Close to half of the respondents do not require a minimum free float or a minimum volume to invest.**

Exhibit 4a: What is the minimum daily average free float necessary for you to invest in an SME?

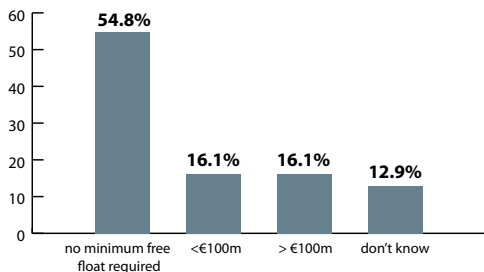
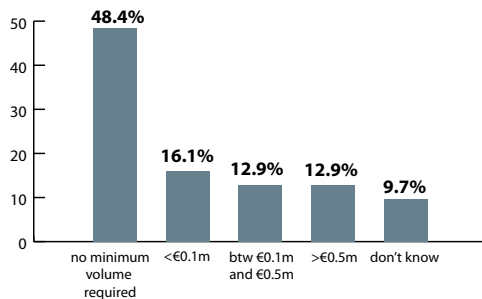


Exhibit 4b: What is the minimum daily average volume necessary for you to invest in an SME?



The results indicate that liquidity is not necessarily a discriminating criterion for the majority of the survey respondents.

54.8% of respondents do not require a minimum free float and 48.4% do not take daily traded stock volume into consideration to invest in an SME.

16.1% invest in companies of which the free float is below €100 million and 16.1% only invest above this threshold.

16.1% can invest if the minimum volume is under €0.1 m, 12.9% if between €0.1m and €0.5m and 12.9% only if above €0.5m.

■ Investment portfolio profile of an SME investor

More than a third of respondents hold more than 50% of their stock portfolio in SMEs

Exhibit 5a: What percentage of SMEs, on average, do you hold in your stock portfolio?

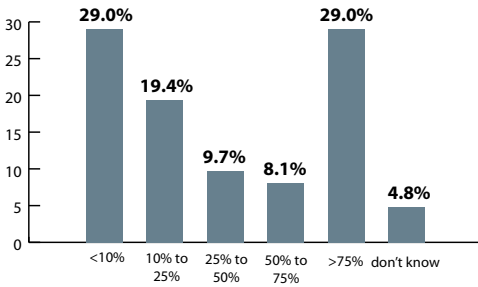
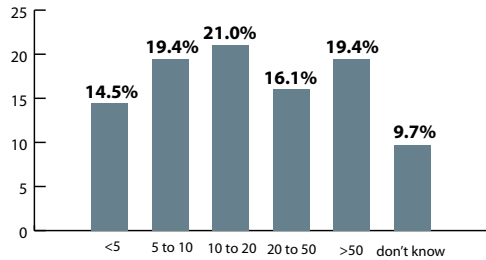


Exhibit 5b: How many SMEs does this correspond to?



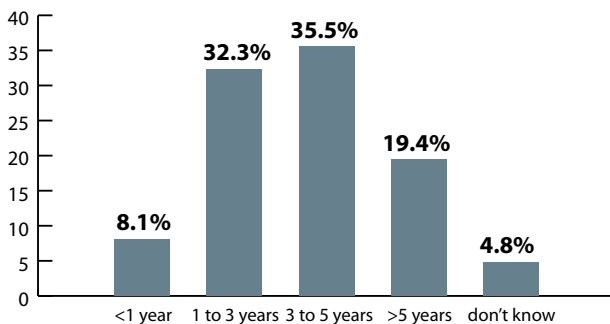
Investors eye SMEs positively and this can be seen in the allocation of their investment portfolios.

37.1% of respondents have a stock portfolio composed of more than 50% listed SMEs, while 29% holds less than 10% in SMEs.

For 35.5% of respondents, this corresponds to holdings in at least 20 SMEs. However, 33.9% indicate they hold less than 10 SMEs.

87.2% of the SME investors have an investment horizon longer than one year

Exhibit 6: What is your average investment horizon in an SME?



Investors invest in SMEs with a long-term duration.

54.9% of respondents indicate they invest in SMEs with an horizon above 3 years. The percentage increases to 87.2% when an investment horizon longer than a year is considered.

Only 8.1% prefers to invest with a short-term horizon of less than a year.

41.9% of the respondents invests with average investment line above €0.5 million.

Exhibit 7a: What is your average investment line in an SME, as a percentage of the total investment portfolio?

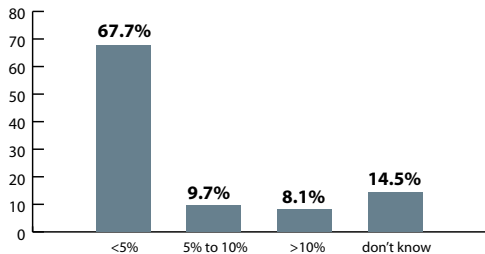
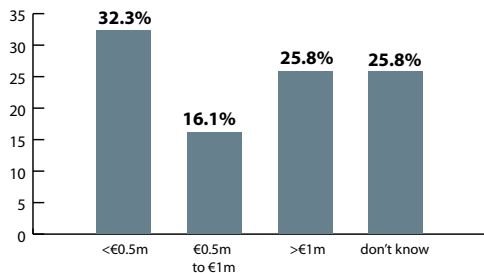


Figure 7b: How much is this average investment line represents in euros?

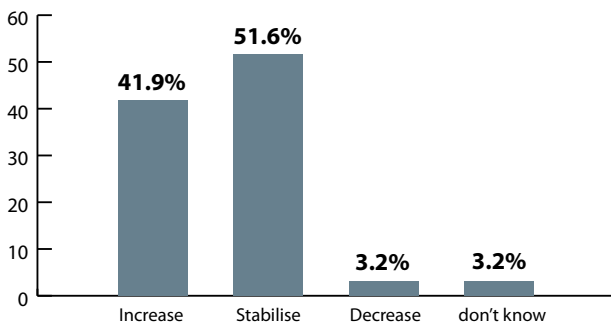


Two third of respondents invests less than 5% of SMEs capital.

32.3% invests less than €0.5 million, a quarter of them (25.8%) above €1 million and 16.1% invest between these two thresholds.

41.9% of respondents mentioned they will increase their investments in SMEs in 2014

Exhibit 8: on average in 2014, will you most likely increase, stabilise or decrease your investments in SMEs?



SMEs will have a growing interest in 2014.

Indeed, 41.9% of respondents indicated they will increase their investments in SMEs in 2014. Almost all respondents (93.9%) consider either maintaining or increase their investments.

Only 3.2% of respondents indicated they will reduce their investments in 2014.

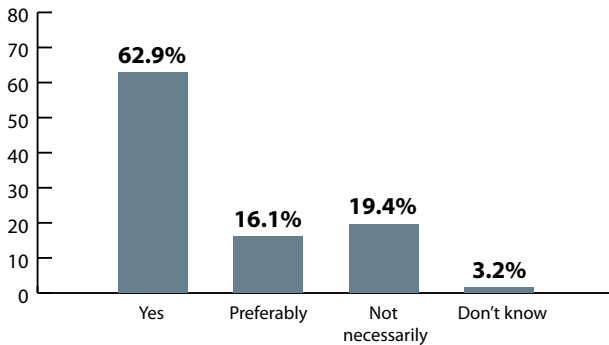
■ Investments will mainly be focussed on Technology and Media

When asked about their preferred sectors in which they would like to invest in 2014, investors cited in majority Technology and Media. Followed, ex-aequo by Industrial and Biotechnology sector.

The Biotechnology is paradoxically also the sector which is mostly mentioned to avoid in 2014.

79% of respondents prefers to meet management before they invest in an SME

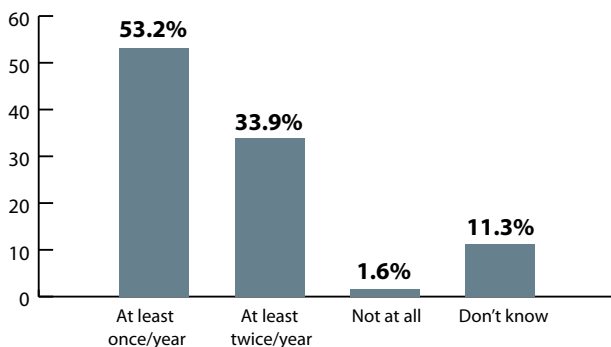
Exhibit 9: Would you prefer to meet management before investing in an SME?



It seems obvious when considering to invest in an SME, but the survey corroborates that the majority of the respondents (79%) prefers to meet management of a company before they invest. 62.9% consider it even being a prerequisite, before taking their investment decision.

87.1% of respondents would like to meet at least once per year the management of an SME when they are shareholders.

Exhibit 10: How often would you like to meet the management of a SME in which you are shareholder?

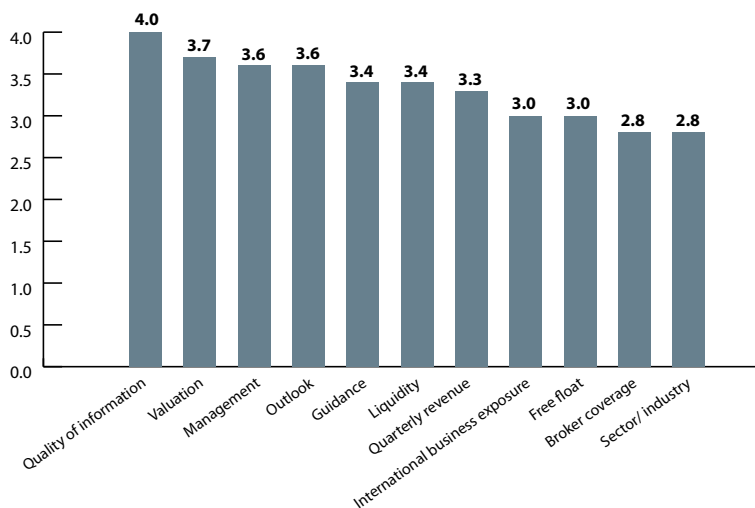


Once they are shareholders, 87.1% of the participants would like to meet management at least once a year. There are 33.9% to request meetings with management at least twice per year. 8.1% even request a meeting every quarter, representing 4 times in a year.

Quality of information and stock valuation are the most important investment criteria.

Figure 11: What are, in your opinion, the most important investment criteria when you consider investing in an SME?

Please rank by importance: 1 for the least important and 5 for the most important



The criterion which is considered as the most important among investors is the "quality of information" that is provided by issuers. This aspect is assessed with the maximum rating of 5 among 43.5% of the participants.

The "stock valuation" is ranked in second place (40.3% assessed with 5). Additionally, in third position, almost ex-aequo with "outlook" (33.9% assessed with 5), followed by "management" (32.3% assessed with 5).

The other criteria for the participants in the survey were liquidity, guidance and quarterly results.

Investors would like SMEs to be better available and to provide more frequent and transparent information.

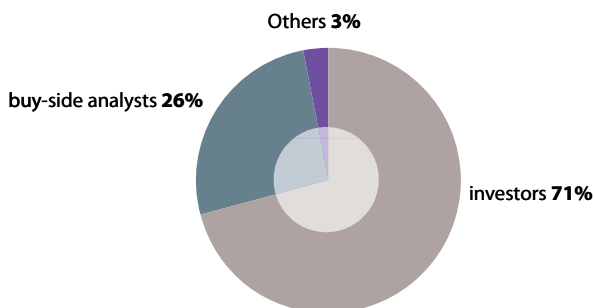
When we ask investors to provide suggestions that would improve the Investor Relations of SMEs, a majority mentions availability of management. In addition, they suggest that SMEs should be more pro-active in their communication towards the financial markets providing more frequent, transparent and sincere information.

PROFILE OF INTERVIEWED INVESTORS.

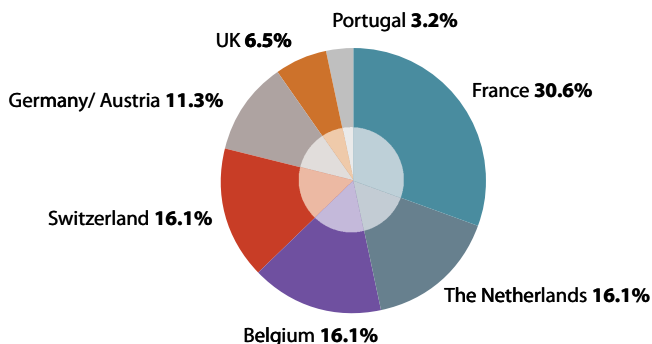
Number of participants in the survey

62 institutional investors have been interviewed in the period between the 9th of January and the 10th of February 2014.

Breakdown of respondents per function



Breakdown of respondents per country



■ About Actifin

Based in Paris, Actifin is a corporate and financial communication advisory firm, specialized in small and midcap companies. Composed of multidisciplinary professionals, Actifin's team advises company's management on their strategic communications and assist them in implementing their action plan. Actifin shows a strong track-record in capital market operations especially in IPOs, from the pre-IPO stage to final listing. To guarantee successful marketing strategy to its clients, Actifin is also skilled in Investor Relations, Press Relations, financial marketing, publishing and advertising in and outside France, in major financial centers, through its international network. See more at www.actifin.fr.

■ About Tradinfo

Tradinfo is an independent Financial Relationship Marketing Agency, based in The Hague and Brussels. We are specialised in Investor Relations (IR) services, such as European & US roadshows, multi-broker investor conferences and ESG investor conferences. In addition, we offer IR consultancy through investor feedback reports after roadshows as well as dedicated IR perception studies among analysts & investors. With these services, we have developed a large set of IR benchmarks and we built a wide network of institutional asset managers & asset owners, buy-side and sell-side analysts, independent asset managers, family offices, etc. We work mainly for listed companies, brokers and stock exchanges. See also: www.tradinfo.com

■ About EnterNext

Launched in May 2013, EnterNext is the subsidiary of the Euronext Group designed to develop and promote its stock markets specifically for small and medium-size enterprises (SMEs). Drawing on its pan-European presence, EnterNext brings together all Euronext Group initiatives for companies with market capitalisations under €1 billion, including companies listed in the B and C compartments of its regulated European markets and on Alternext, the market tailored to the needs of SMEs. EnterNext plays an active role in facilitating SMEs' access to financial markets, helping them generate the funds they need to grow at regional, national and pan-European level. Euronext is a wholly owned subsidiary of IntercontinentalExchange Group. www.enternext.biz

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