

FINAL

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Fund managers expecting profits to rise in small and mid-sized companies

A large majority (70%) of fund managers and buy-side analysts that have an interest in small and mid-sized companies expect corporate profitability among these companies to increase over the next year, and over half expect this rise to be accompanied by an increase in operating margins, according to a survey by Execution Noble, the international investment banking group, and TNS.

The survey also found that:

- Over half (53%) believe that smaller companies will outperform UK large cap stocks in the next year.
- 43% believe consensus earnings forecasts are too low and that smaller companies are undervalued.
- Healthcare, technology and industrial goods and services believed to be the most undervalued sectors.
- The real estate sector was the most overvalued.
- A large majority (83%) believed that the balance sheets of small cap are either appropriately or under leveraged.
- Over half (53%) believed that cash flow should be retained to strengthen balance sheets.
- A majority (71%) of respondents expect to increase or keep constant their weighting to UK small and mid cap equities over the next year, compared to 14% looking to decrease.
- 17% had an increasing appetite for IPOs, compared to 23% who had a decreasing appetite.
- Over half, 63%, became interested in investing when companies' market capitalisation reached more than £50 million; 23% when it reached more than £100 million and 13% when it was more than £250 million.

Scott Evans, Execution Noble Head of Small & Mid Cap UK Research, said: "Fund managers are preparing to increase their weightings in small and mid-sized companies, which will add to the momentum in this sector. The driver for the increased interest in investing is an expectation of increased profits and margins. We believe that the recovery in the fortunes of small and mid-sized companies has only just begun. "

Waheed Aslam, Director, TNS Finance, said: "Small and mid-sized companies have worked hard internally on creating robust processes and streamlining costs, in order to prove themselves as sound investments. We can see from our research this diligence has paid off with a good forecast for profit growth. This combined with a general rise in confidence in overseas investment and a willingness on the part of investors to diversify risk, has created a perfect storm from which small and mid-sized business are beginning to thrive again."

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PRESS RELEASE

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Note to editors

Execution Noble has teamed up with TNS Finance to produce the Smaller Companies Investor Survey (SCIS), an online survey aimed at investors with a particular interest in the UK Small and Mid Cap market. The objective of the survey is to gain valuable insight into investors' views on this distinct area of the market and to track how this varies over time.

About Execution Noble

Execution Noble is a leading international investment banking group providing clients with execution; equity sales and trading; research; M&A; corporate finance; corporate broking; equity capital markets; and corporate access.

The group has over 250 staff and recognised leadership in sell-side alpha generation, analyst research, agency broking, and growth and mid cap corporate broking and financial advisory services. It also operates agency credit and derivatives businesses.

Headquartered in London, with offices in Scotland, the United States, Hong Kong, India, France and Germany, Execution Noble has been servicing many of the world's major investing institutions, including mutual funds, pension funds, insurance companies and hedge funds since 2001, as well as over 500 listed and unlisted growth and mid-cap companies.

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