

An interview with Peter Shea, Founder of Daniel Stewart



Peter Shea is the founder of Daniel Stewart, the investment bank, offering corporate advisory and institutional stock broking services. It has a particular focus on small and mid-size companies. Daniel Stewart's philosophy is that we will succeed only if our clients' requirements are clearly understood and met in a professional and timely fashion.

Daniel Stewart was founded by Peter Shea in 1989. Peter and his team still remember the days when they started out working out of a tiny office in the West End above a bookie in John Adam Street. It seems a far cry from today's business, which is a full service investment bank with a string of AIM, main list and overseas clients, employing 50 people with three offices in London, Manchester and New York.

We started our interview by asking Peter about the early days

Q. Why did you found Daniel Stewart?

A. At the time there was a gap in the market for providing quality investment banking products to the small cap markets at a price that was reasonable. So it seemed to me that there was an opportunity to provide equal quality at a lower price.

Q. What lessons did you have to learn in the early days?

A. There are a number of things we noticed back then, but the biggest difference was that large cap clients are fully resourced (HR, internal audit etc). When we were at Bear Stearns we just took it as read that these resources were in place and got on with our advisory role. Starting Daniel Stewart showed us a world where our clients did not necessarily have fully resourced support functions, in fact some of them hardly had any resource or even skills in these areas, which changes the whole way you have to look at and support your client.

Q. What do you do now that is different from when you started?

A. I think the key thing is that over time we have focused on and refined how we look at clients. Nowadays, it comes down to one thing - management. We pay attention immediately to management. It's the most important element in the company - to be honest the rest is almost incidental, if the team is not right.

Q. What was the first really big challenge you overcame at Daniel Stewart?

A. We were all from corporate finance and therefore were used to advising companies, not raising money. It took us a while to figure it out, but now we can raise anything from £2m to £100m.

Q. Please could you tell us a bit about your current corporate clients?

A. We have approximately 45 corporate clients - the majority are listed on AIM or the main list of the London Stock Exchange. Our clients reflect our sector research which covers every aspect from technology to property and even gaming. Our clients vary in size from £2-3m market cap to £200-300m. The ones you may have heard of are Sportingbet and Vyke Communications.

Q. Can you tell if a company is going to perform strongly post flotation - are there any hints you can give our readers who like to invest in AIM companies?

A. My biggest hint is not to bother looking for the flip (i.e. trying to make a quick profit on the back of an event such as a flotation). Look instead at the underlying quality of the business, especially the management team, and take a long term view.

Q. You publish a lot of brokers' research. Why?

A. In the small cap market, in which we specialise, there is limited information available. Part of our job is to attract investors. Research is the jam which attracts the bees. First we do sector research and then within the sector we highlight potential winners and losers. Hopefully, the quality of the research we produce will then attract the investor to deal through us.

Q. What effect can a new piece of brokers' research have on a company's share price?

A. A new piece can have an enormous impact - take Vyke - we took them on when their share price was 75p. When we produced our first piece of research saying it was worth £5 a share, the share price rocketed immediately to £2.07. It can also work the other way. Recently our analyst published some research on Silverjet. Prior to the publication of the research the shares were 55p. Our analyst said it was worth nothing and the price is now 14p. But research has to be high quality to have any effect.

Q. Some angel investors will not regularly see brokers' research but there is a lot of valuable information in sector reports which they should pay attention to. Please could you expand on this?

A. Sector specialist analysts, which is what we enjoy here, have huge in depth knowledge speak regularly sometimes daily to the CEOs and CFOs of the companies and so are up to date with who is doing what and the likely outcomes in the near and long term - this can really help you make your decision in which opportunities you should invest, not just quoted companies but also other up and coming companies in the sector. Essentially our analysts can provide your readers with lots of ammunition in the investment process.

Q. What do you think the role of the private shareholder in AIM quoted businesses should be?

A. Private shareholders are no different from institutional shareholders and should be treated equally. They also play an important role in providing liquidity because they trade in shares regularly. I think that private investors should not think of themselves as any different from institutional investors - they should look for high quality investment opportunities and aim to build a diverse portfolio to minimise investment risk.

Q. Are there any tips you can give private investors planning to invest in AIM?

A. Yes, watch what the institutional investors do. The typical error we see private investors making is that they sell too late and invest too early often from panic. The difference with institutional investors is that they have usually done their research and have taken a view. This helps them to anticipate and plan for a downturn. If I had one tip is that private investors should do their research and if necessary buy when a share price is falling - assuming, of course, that they believe the long term outlook will be strong.

Q. Why should I raise money via a flotation rather than Venture Capital?

A. First of all, flotation is not always the answer. The decision to float should be taken in the context of three major things. Firstly consider where you are in your business cycle. If you are very early stage you should probably go for VC funding, but if you are already in a strong position with revenues and positive and growing cash flow generation, flotation may be the route for you. Secondly, remember that a flotation means you will only be able to exit on a partial basis and post float it will no longer be your company, so you will have to react as a manager of a publicly owned business not at the owner of a private fiefdom. Lastly, consider whether you are in an industry that is "floatable," Even if you have a £25m profit, if your market is only ever going to be worth £75m, you are unsuitable for flotation, but it may be that you are in a market worth £billions. In the latter case you may be floatable even if your profit is only £2m.

Q. What advice would you give to a company considering a flotation?

A. In the context of AIM, you should pay considerable attention to the advisers you want to appoint. Make sure you meet as many as possible and look for a natural rapport as you will, hopefully, be with them for a long time. Make sure you appoint them early so you have plenty of time to prepare for the float and life as a public company. When you are choosing, don't be overly influenced by the size of the adviser or their client list. Instead look at their record of success.

Q. What are the typical mistakes companies make when it comes to fundraising?

A. Companies make a wide array of mistakes, but the three most common are overvaluing the business, not allowing enough time for the flotation process and not preparing properly for the investor presentations. I suspect these issues are common both to the angel market and to the AIM market. In particular I think entrepreneurs should consider the issue of over-valuation. How we see it is that the product of institutional investors is money they hand over money with the expectation that they will get more back. If you over-value the business and thereby try to prevent them from achieving this objective they will not do business with you.

Q. You are a quoted company yourselves - what is it like dealing with investor relations and the press and what tips can you offer AngelNews companies in this regard if they are already quoted or who are intending to float?

A. I am a big believer in investor relations. Once you are public, you have effectively sold your business. I follow the philosophy that all shareholders should be treated equally and with respect, which means, among other things, that you must give them information on a timely basis.

Q. Are you seeing the effects of the credit crunch in the market?

A. Not directly as we are not really involved in that business. We are seeing a general economic slow down, but it is not hitting us [at the moment?].

Q. Are the needs of big quoted companies different from the needs of little quoted companies?

A. Absolutely. The focus is almost completely different. As I mentioned earlier, big companies have an established business which is fully resourced. Therefore, when it comes to a fundraising, they are concentrating on the totality of the fundraising. For little companies the situation is directly opposite. They have the challenge of keeping the business going with scarce resources. Often the challenge will be that a marginal change in the size of the fundraising will make or break the business. Sometimes it is as little a £100,000 that will make all the difference.

Q. In your view what do you think are the biggest issues you face as you grow your business?

A. You will face many issues, but at all times pay attention to cash flow and do not over trade. You should look at your cash position, however successful you are, on a daily basis.

Q. Do you remember the first customer you had? Who were they and do you know what happened to them?

A. I do indeed - we had a couple of false starts, but our first "proper" customer was Parkfield Projects and 20 years on they are still a client.

Q. How do you find the right new customers and how long is your relationship with each customer?

A. We find our corporate clients by word of mouth, direct marketing and going out and looking for them. The length of our client relationships varies, but some are over two decades long. For others the time is shorter either because they are acquired, they move to a new exchange, in which we do not have a specialism or, sometimes, we just fall out.

We are a big believer in the relationship side of our business as long relationships are the best.

- Q. What lessons would you give to a SME wanting to build business in your sector if they were starting today?**
- A. Test your business plan, test it again and make sure you have enough capital - we had hardly any capital, but we were fortunate. I think it would be very hard for someone to achieve what we did 20 years ago, in this day and age.
- Q. What tips would you offer an entrepreneur wanting to sell products or services to your industry?**
- A. Our industry is very difficult to sell products to. We are a highly profitable and cash generative industry. You might think this makes us willing to spend money, but, in fact, it's the opposite. It just makes us fussier. One tip I can suggest is that you should do your research and find the right person in the firm to approach - this is NOT usually the CEO. Whatever you do, do not send a form letter, which will go straight in the dust bin
- Q. Do you work harder now than when you started?**
- A. I work differently. I have always started at 7.15am and my day normally ends at 7pm - nothing has changed there! Today I am focused on different problems, but, do you know, is all just as enjoyable as it was in the early days.
- Q. What did you learn from your first great boss?**
- A. I learnt a couple of things. Make sure you listen and make sure you take some time to think. I saw him in action in this way and it has stood me in good stead. I believe that the guy in charge does not have a monopoly on good ideas
- Q. How do you relax?**
- A. I love country sports, especially shooting and fishing.
- Q. Who is your hero and why?**
- A. I don't really have a hero in business or at all, but I have great admiration for people who act along with what they truly believe in even if this means they are in a contrarian position.
- Q. Lastly, what is your best quoted company disaster story?**
- A. Actually, I have personal story for this one. A couple of years ago we were acting for a number of clients in the gaming industry and had taken a position which was looking as if it was going to make us a very substantial profit. We were offered the chance to hedge our profits and we elected not to because we wanted to maximise the money we could make. Then the US legislature changed its position on gambling which effectively closed down the gambling market in the US. On Thursday we were looking at a £5m profit. By Monday we were sitting on a £4m loss. That hurt!