

# How N.H.-based public companies performed in '04

## FINANCE

By Howard Smith

With the holiday season behind us, it's time to look back at 2004 and measure the stock performance of New Hampshire publicly traded companies. Increases in valuation are one of the key performance indicators included in most performance measurement systems.

At first sight, it was indeed a season to be jolly: an index of 26 publicly traded companies headquartered here in New Hampshire solidly outperformed both the S&P 500 and Nasdaq. On a trailing 12-month basis, an index of publicly traded New Hampshire stocks rose 29.22 percent (on a price weighted basis) vs. returns of 11.08 percent for the S&P 500 and 10.96 percent for the Nasdaq. Fifteen of the 26 stocks outperformed the broad market averages, while 11 companies underperformed. Eight companies produced negative returns to shareholders. All return data excludes dividends.

To be included in this study, the principal office of the company had to be located in the state. This eliminated many public companies with divisions located within the state.

### Performers

When looking at this universe of companies, the first thing that an investor should note is company size. Only three companies in the state (Fisher Scientific, White Mountains Insurance and Timberland) have market capitalizations in excess of \$1 billion. The median market capitalization of New Hampshire publicly traded companies is \$66.7 million. Given that recent median pre-money IPO valuations average \$200 million, it is unlikely that any of these smaller companies would be a candidate for an IPO in today's market. High compliance costs and a limited universe of investors willing to take positions in illiquid stocks make staying public less appealing to smaller companies. Companies with this profile may be looking for strategies to merge, be sold or "go private" to avoid on-going compliance costs.

Three companies — Environmental Power Corp., MangoSoft and Omtool — distanced themselves from the rest of the pack by generating solid percentage gains, 586 percent, 158 percent and 122 percent, respectively.

Environmental Power spent most of the year trading within a narrow range of \$1 per share. In December, the price of the stock hit a 52-week high of \$8.45 before retreating to its recent close of \$6. Other than an announcement relating to a reverse stock split and no news of a major change in business fundamentals, there is precious little data to explain this price move.

Both MangoSoft and Omtool sell and support business software. While MangoSoft's performance looks impressive at first glance, its balance sheet shows approximately \$88.7 million of paid in capital with an accumulated deficit of approximately the same amount. Given its market capitalization of \$4.1 million, the company looks like a fallen angel. Omtool, a provider

of electronic document delivery management software, realized most of its stock price gains in the first half of the year and has since traded in a very narrow range.

Eight companies produced negative percentage gains (ignoring dividends). At the bottom of the pack, SkillSoft, located in Nashua, announced a restructuring of its workforce in November, eliminating 120 jobs in Ireland and 13 in Nashua in favor of continued outsourcing of its IT content development activities. Only time will tell if investors perceive this to be a favorable development.

Storage Computer, Bentley Pharmaceuticals, iCAD, Pennichuck, NH Thrift Bancshares, BayCorp and Northway Financial comprise the other companies producing negative percentage returns. All of these companies, with the exception of Bentley, share small market cap limitations.

### Bright spots

Five companies in this 26-stock universe stand out: Fisher Scientific, White Mountain Insurance Group, Bottomline Technologies, Timberland and Monadnock Community Bancorp.

Fisher closed its acquisition of Portsmouth-based Apogent in August 2004. In the face of overwhelming evidence that large mergers do not produce favorable returns to shareholders, the stock was a solid performer, increasing over 50 percent.

Until this merger, White Mountain Insurance was the largest publicly traded company in New Hampshire. The company turned in a stellar year, generating returns well in excess of its industry peers and the S&P 500.

Bottomline shows signs of renewal, as its stock price increased over 45 percent from recent lows of about \$7.40 a share. I hope this is a sign that the software sector is springing back to life after three very difficult years.

Finally, the only company in New Hampshire to IPO this year was Monadnock Community Bancorp. Since its IPO in June, the stock has risen 48 percent. Today there are only three publicly traded banks headquartered in New Hampshire. Given the consolidation in that industry, one must question how long these banks can remain independent.

Like most things in finance, the numbers often do not tell the whole story. Despite posting solid returns, most New Hampshire companies suffer from small market capitalizations, making it difficult for investors to accumulate meaningful stock positions. Moreover, illiquidity exacerbates price moves, which makes it difficult to measure management performance on the basis of wealth creation. So, while the numbers suggest a stellar year for New Hampshire stocks, shareholders should probably take their performance with a grain of "granite." **NBR**

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