

The Share Price Is an Output

Microcap management cannot will its stock price higher. It can build the cash flows, and make the capital allocation decisions, that can support long-term per-share value.

Robert Yu, CEO | Spirit Advisors LLC · October 2026

IN BRIEF

— A share price is the output of three things: the cash the business generates, what management does with that cash, and how many investors know and trust both. Management has substantial influence over the first two.

— Every capital allocation decision runs through four questions, asked in order: Do we have excess capital? Can we reinvest it above our cost of capital? Does the balance sheet need it? Is the surplus recurring or one-off? The answers point to nine possible moves, from operational focus to a regular dividend.

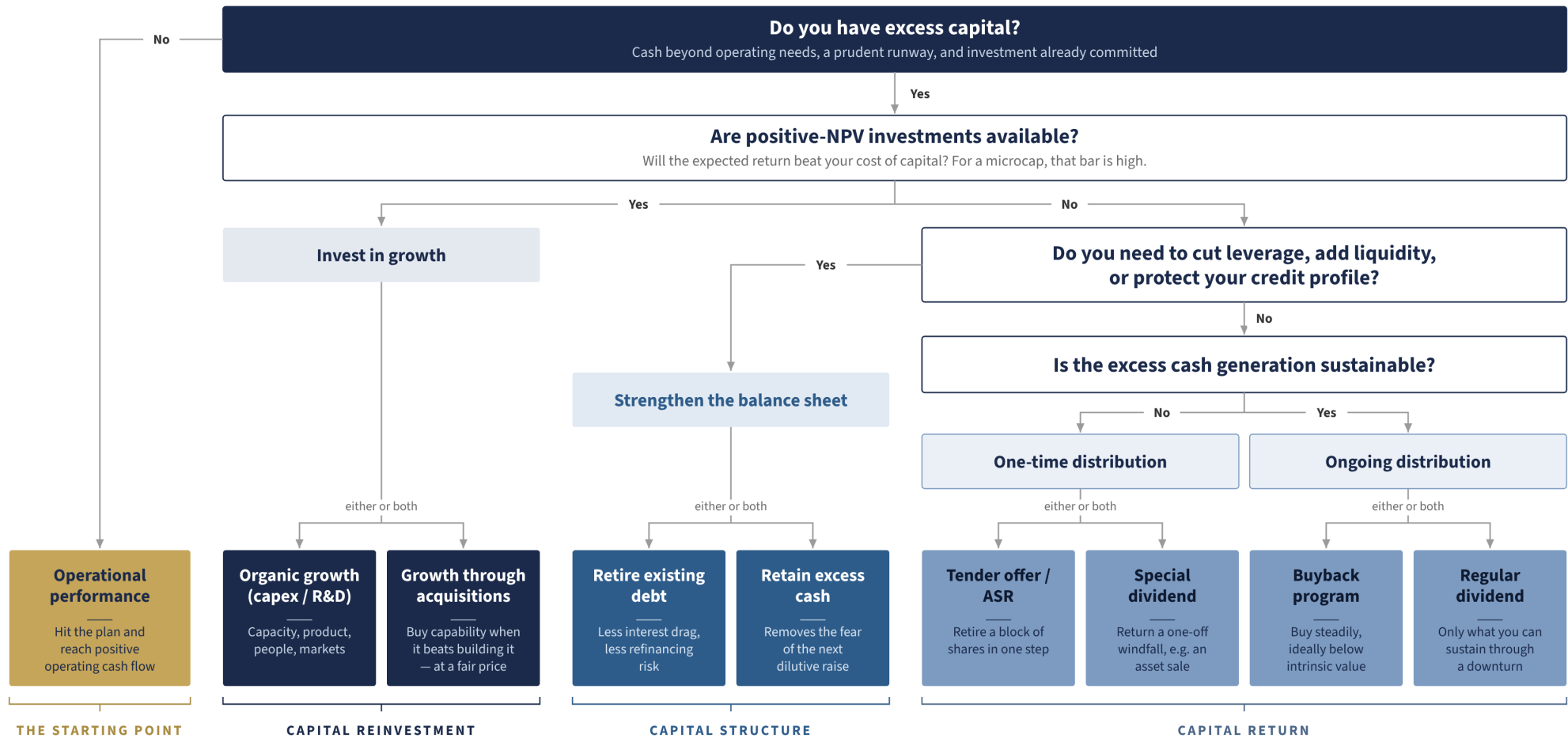
— Buybacks below intrinsic value can increase value per remaining share; dividends distribute cash to shareholders. Neither guarantees a higher share price. IR raises the odds the market notices sooner. Fundamentals are what make either one credible.

The complaint we hear most often from listed microcap clients is some version of “our stock is too cheap.” It usually arrives with a request: a new IR firm, a press release, a slot at an investor conference, a reverse split, a social media push. Each of those has its place. But they share a hidden assumption: that the share price is an input management can set by getting the message right. It is not. The share price is an output. It reflects the cash the business generates, what management does with that cash, and how many investors know and trust both. Management has substantial influence over two of those three. The third — attention — is worth very little without the first two.

That is why the decision tree below deserves a place on every microcap CEO’s wall. Its origin is a capital allocation framework published by Credit Suisse’s investment bank, and its logic is simple enough to fit on one page: four questions, asked in strict order, that route every dollar of surplus capital to one of nine destinations. We have redrawn it and added a line of plain commentary to each destination. The order matters more than any individual box. Most of the value destruction we see at small listed companies comes from skipping a question, not from answering one badly.

The Capital Allocation Decision Tree

Four questions decide what management does with every dollar the business generates — and each answer is a lever on the share price.



Source: Adapted and redrawn by Spirit Advisors from Credit Suisse Investment Bank, Corporate Insights, "Capital Allocation: Paths to Value" (2021). Tile commentary is Spirit Advisors'.

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Question One: Do You Actually Have Excess Capital?

Excess capital is not the cash balance. It is what remains after the business has funded its operations, held a prudent runway, serviced its debt, and paid for the investment it has already committed to. A company with \$15 million in the bank and a \$9 million annual operating cash burn does not have excess capital; it has about 20 months at that burn rate, before other cash requirements.

For most newly listed microcaps, especially those that listed in the past two or three years, the honest answer to the first question is no. The IPO proceeds are spoken for in the use-of-proceeds section of the prospectus, and investors will hold management to it. In that case the chart offers exactly one destination, the gold box on the far left: focus on operational performance. In practice that means setting guidance you can hit, then hitting it; showing quarter-on-quarter progress in revenue and gross margin; driving toward positive operating cash flow; and making the cash runway visible so no one has to guess at it. The market forgives a company for being small. It does not forgive surprises.

A warning belongs here. The most common capital allocation mistake we see at microcaps is answering “no” to this question and then acting as if the answer were “yes”: announcing a buyback funded by IPO proceeds to “support the stock.” It tells investors that management has no better use for the capital it just raised, it shrinks a float that is already thin, and it rarely moves the price for more than a few days. If you do not have excess capital, the most shareholder-friendly thing you can do is go and earn some.

Question Two: Can You Reinvest It Above Your Cost of Capital?

Once surplus cash exists, the first claim on it belongs to the business itself, but only where the return beats the cost of capital. For a microcap that bar is high. Investors in small, thinly traded stocks may require returns well into the teens to compensate for illiquidity and risk. A project returning 8% would destroy value if its risk-adjusted cost of capital exceeded that return, even if it grew revenue. “Positive NPV” is simply the formal way of saying that the project earns more than investors could expect to earn elsewhere for the same risk.

The chart offers two routes. Organic growth — capacity, product development, hiring, entering the US market — is usually where a founder-led company earns its best returns, and it should be measured like an investment, with a payback period and a hurdle rate rather than a hope. Acquisitions can be powerful for a listed microcap, because private businesses often change hands at lower multiples than public ones. The discipline is in the currency. If your stock is cheap, issuing shares to buy another company is the most expensive money you can raise. Pay in cash when your stock is undervalued; use stock when it is fully valued. Get that backwards and an acquisition that looked accretive on paper transfers value from your shareholders to the seller’s.

Question Three: Does the Balance Sheet Need It?

If there is surplus capital and no investment that clears the hurdle, the next question is defensive: does the company need to reduce leverage, add liquidity, or protect its credit profile? Two moves follow.

Retiring debt pays when the debt is expensive or dangerous: high-coupon notes, convertibles with reset features, or borrowing large enough to raise going-concern questions. It pays less when the debt is

cheap. Many Japanese companies carry bank loans priced at low single-digit rates, and using dollars raised at an equity cost in the teens to repay yen borrowed at a fraction of that is rarely the best trade.

Retaining excess cash is the most underrated option on the chart for a microcap. One source of a persistent discount at small listed companies is the expectation of another dilutive financing. A balance sheet that visibly funds the plan through to profitability removes that overhang. “We do not need to raise again” is one of the most valuable sentences a microcap CEO can say, provided it is true.

Question Four: Is the Surplus Recurring or One-Off?

Only when the business is funded, the good projects are financed, and the balance sheet is sound does the chart reach capital return. Even then it asks one more question, because the right instrument depends on whether the surplus will recur.

If the surplus is a one-time event, such as an asset sale, a legal recovery, or an unusually strong year, return it in one step. A special dividend distributes it cleanly without creating an expectation that it will be repeated. A tender offer repurchases a block of shares at once, often via a modified Dutch auction that lets shareholders name their price within a range. An accelerated share repurchase (ASR) does the same through a bank, though in practice ASRs are a large-cap tool; at microcap scale the tender offer is the realistic version.

If the surplus is recurring, commit to returning it on a schedule. A share repurchase program works best when it is opportunistic: buying more when the stock trades below intrinsic value, and less or none when it does not. Bought at the right price, every share retired raises each remaining holder’s claim on future cash flow. A regular dividend is the strongest commitment on the chart, because the market punishes a cut far more than it rewards an initiation. Set it at a level the business can sustain through a downturn, not at the level of a good year.

The Microcap Fine Print

The framework is universal. Applying it at microcap scale involves constraints that large-cap playbooks do not mention.

Buybacks shrink the float. A stock that trades \$50,000 a day does not become more investable when the company removes shares from circulation. Nasdaq’s continued-listing rules set minimums for publicly held shares, market value of publicly held shares, and the number of public holders, and an aggressive program can erode all three. The SEC’s voluntary Rule 10b-18 safe harbor generally requires daily repurchases not to exceed 25% of the preceding four weeks’ average daily trading volume, subject to exceptions including a qualifying weekly block purchase. At microcap volumes, a meaningful program can take many months. A tender offer may be an alternative. A Rule 10b5-1 plan can help schedule trades but does not itself remove Rule 10b-18 conditions. Liquidity should be part of the decision from the start.

Check where the distributable reserves sit. For a Japanese issuer, dividends and share repurchases are limited by the distributable amount (分配可能額) under the Companies Act, and the authorization route depends on the articles. For a Cayman or other offshore holding company, the relevant test sits at the listed parent, not the operating subsidiary that generates the cash. Confirm that the cash can legally reach shareholders before anything is announced.

A reverse split is not a capital allocation decision. It changes the share count, not the business. Under Nasdaq’s 2025 rule change, a company that becomes noncompliant with the \$1 minimum bid-price requirement after a reverse split within the preceding year is ineligible for a compliance period and receives a staff delisting determination. A single close below \$1 is not, by itself, the trigger. Treating reverse splits as a repeatable fix therefore carries delisting risk. A reverse split buys time. Only the decisions in the tree change the outcome.

Dilutive financing is the chart run in reverse. Raising capital is not the problem; every company on the left side of the chart may need to. The problem is raising it continuously, at a discount, with no visible plan for the return it will earn. The market prices that pattern long before management admits to it.

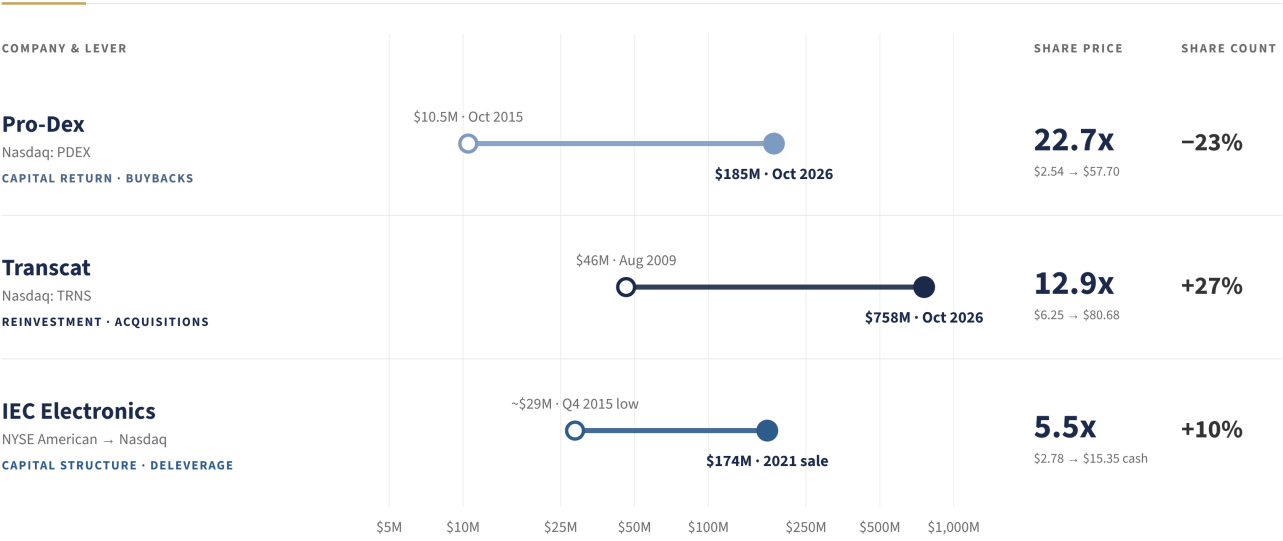
What It Looks Like in Practice

The framework is easy to agree with in a boardroom. What matters is whether it works at the bottom of the market-cap range, where liquidity is thin and nobody is watching. Three US-listed companies that started below \$50 million in market value suggest it does. Each pulled a different lever on the chart, and none of them is a clean fairy tale.

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Three Sub-\$50M Companies, Three Different Levers

Market value at the starting point vs. latest (or exit), US\$ millions, log scale



Sources: company SEC filings and releases; market prices from public quote history (not dividend-adjusted). Market values = shares × price. IEC endpoint = 2021 acquisition price.

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Figure 2 note: market values are indicative estimates using share counts from different dates. Multiples cover different periods and exclude dividends.

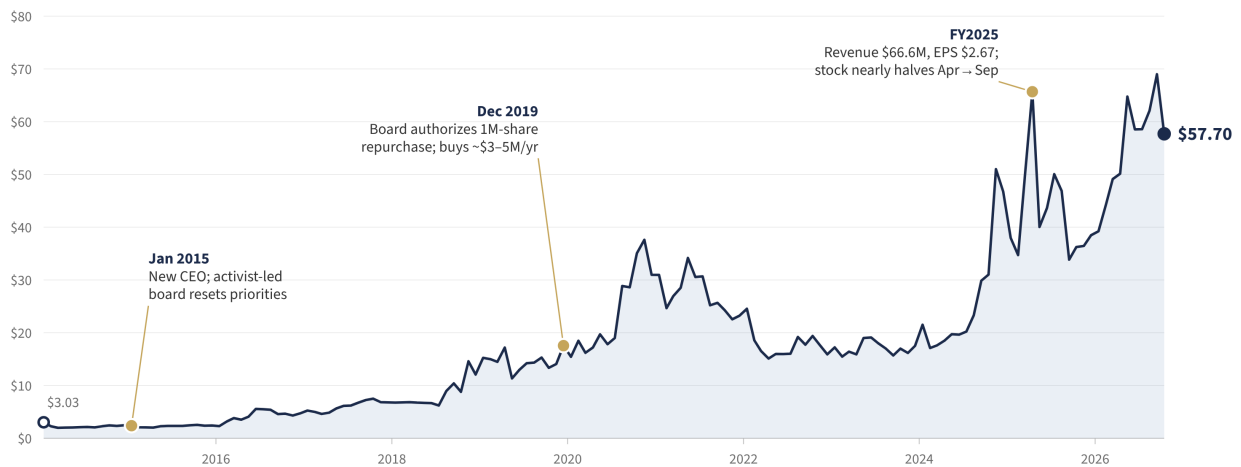
Pro-Dex: Earning the Right to Buy Back Stock

In late 2015 Pro-Dex, a California maker of powered surgical instruments listed on the Nasdaq Capital Market, had about 4.1 million shares outstanding, a share price around \$2.50, a market value of roughly \$10 million, and barely \$1 million of cash. A new CEO and an activist-led board did the unglamorous work first: they fixed the operations and grew revenue from a contract-manufacturing base. Once the business produced surplus cash, the board turned it into steady repurchases, authorizing a one-million-share program in December 2019 on top of earlier buying and spending roughly \$3 million to \$5 million a year on its own stock in most years since. By early 2026 the share count was down about 23%, to 3.2 million, and fiscal 2025 revenue had reached \$66.6 million with diluted EPS of \$2.67. The stock traded at \$57.70 in October 2026, about 23 times its 2015 level, implying an indicative market value of roughly \$185 million using the January 27, 2026 share count. The caveats are real: much of the gain came from earnings growth rather than the buybacks themselves, the company relies heavily on one large customer, part of the recent buying was financed with debt, and the stock nearly halved between April and September 2025. But the sequence is exactly the chart's: operations first, buybacks only once the cash was genuinely surplus.

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Pro-Dex: Operations First, Then a Shrinking Share Count

Monthly closing share price, US\$, Jan 2014 – Oct 2026 · shares outstanding 4.14M (2015) → 3.21M (2026), -23%



Source: Yahoo Finance monthly closes (not dividend-adjusted); Pro-Dex SEC filings (DEF 14A 2015, 10-K FY2024, 10-Q Dec 2025) and FY2025 results release.

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Figure 3 note: October 2026 is the October 19 close, not a completed month-end. Share count is from January 27, 2026.

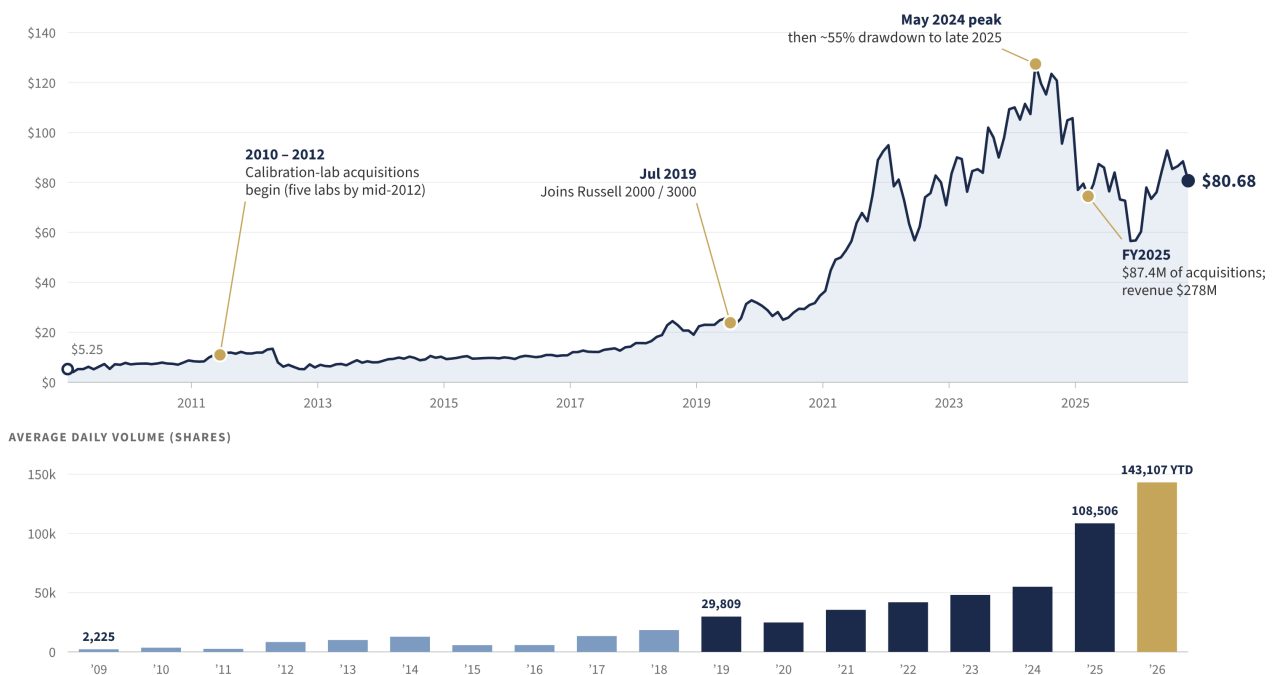
Transcat: Reinvestment, Then Liquidity

Transcat, a provider of calibration services and test instruments, was a \$46 million company in August 2009, trading at \$6.25 with an average of 833 shares changing hands a day. Its capital went into the left side of the chart: a steady program of calibration-lab acquisitions alongside organic growth in its service business. Revenue rose from \$75 million in fiscal 2009 to \$278 million in fiscal 2025. Along the way the company joined the Russell 2000 and Russell 3000 in July 2019, and it now has research coverage and a predominantly institutional shareholder base. On October 19, 2026, the stock closed at \$80.68, implying an indicative market value of about \$758 million using the workbook's 9.39 million-share input, and recent daily volume runs in the region of 100,000 shares. That is the liquidity transformation every microcap wants, and it followed the fundamentals rather than leading them. Transcat also illustrates the currency point: its share count rose about 27% as it used equity to fund growth, alongside substantial growth in revenue and market value. Share-price performance alone does not establish that the acquisitions earned more than the cost of the equity issued. The stock is also well off its 2024 high, a reminder that a re-rating does not move in a straight line.

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Transcat: Liquidity Followed the Fundamentals

Top: monthly closing share price, US\$, 2009 – Oct 2026 · Bottom: average daily trading volume, shares



Source: Yahoo Finance (monthly closes; annual average daily volume from daily data, 2026 YTD to Oct 19); Transcat fact sheets, FY2025 results, Russell release.

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Figure 4 note: October 2026 is the October 19 close; 2026 volume is year to date. The 833-share baseline is a three-month average, distinct from the 2,225-share 2009 annual average.

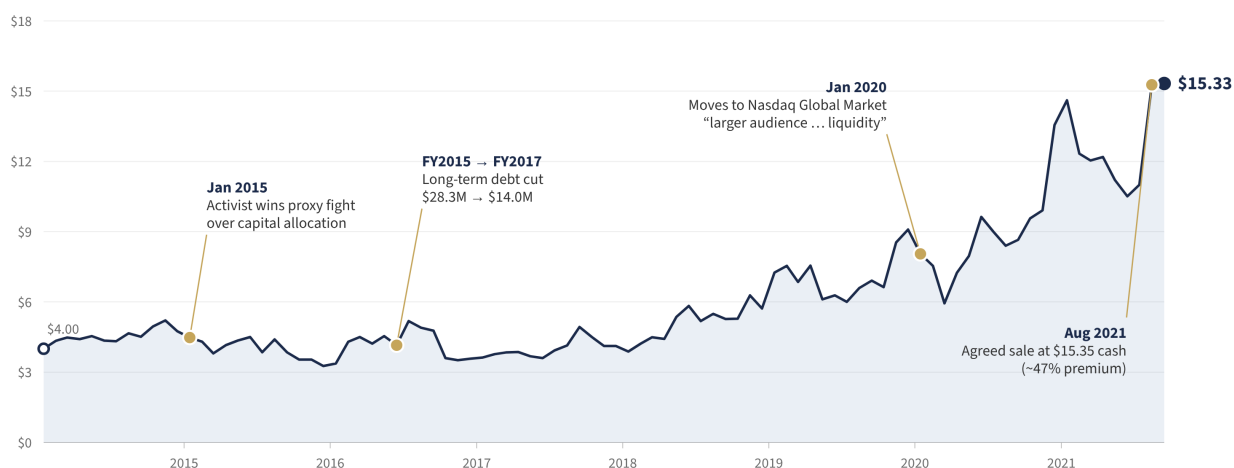
IEC Electronics: Fix, Deleverage, Uplist, Exit

IEC Electronics, a contract manufacturer of electronics for aerospace, defense and medical customers, lost a proxy fight in early 2015 to an activist shareholder whose campaign centered on poor capital allocation. The new board and management did what the middle of the chart prescribes: they repaired operations and cut long-term debt from \$28.3 million in fiscal 2015 to \$14.0 million by fiscal 2017. At the 2015 low the market valued the company at roughly \$29 million. With the balance sheet repaired, IEC reinvested, growing revenue from \$96.5 million in fiscal 2017 to \$157.0 million in fiscal 2019, and in January 2020 it moved from NYSE American to the Nasdaq Global Market. In announcing the move, management said explicitly that it was looking for a larger institutional audience and better liquidity. In August 2021 Creation Technologies agreed to acquire IEC for \$15.35 per share in cash, an equity value of about \$174 million. The deal price was roughly five and a half times the 2015 low. Long-term debt had risen again to \$28.9 million by fiscal 2019, and the 2017 reduction also involved a sale-and-leaseback transaction; this was not a continuous reduction in total financial obligations.

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IEC Electronics: Fix, Deleverage, Uplist, Exit

Monthly closing share price, US\$, Jan 2014 – Sep 2021 (acquired Oct 2021)



Source: Digrin monthly price history; IEC 10-K FY2017 and FY2019; GlobeNewswire (Dec 2019); Circuits Assembly (Aug 2021); 2015 intramonth low: \$2.78.

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Figure 5 note: long-term debt excludes the current portion and capital lease obligations. The sale was agreed in August 2021 and completed in October; the final plotted close is \$15.33, versus \$15.35 deal consideration.

Closer to Home

The same logic is reshaping Tokyo. Since the Tokyo Stock Exchange asked listed companies in March 2023 to manage with an explicit eye on their cost of capital and share price, boards trading below book value have been pressed to work through the same four questions in public. Nishikawa Rubber is a clean example. In February 2025 it disclosed an estimated cost of equity of about 9%, set targets of at least 1.0x book value and at least 9% ROE, committed to reducing an equity ratio above 60% to around 55% through shareholder returns, and adopted a dividend policy of roughly 8% of shareholders' equity per year. Its dividend forecast for the fiscal year went from ¥52 to ¥204 per share, against ¥44 a year earlier (all three dividend figures are on the pre-split basis). The stock hit its daily limit-up and more than doubled in the week of the announcement, then kept climbing. The announcement made management's answer to the fourth question explicit. The share-price reaction does not, by itself, isolate the effect of the dividend policy from other news or market factors.

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Nishikawa Rubber: Making the Capital Return Policy Explicit

Weekly closes, JPY, split-adjusted (2-for-1 effective April 1, 2025), Jan 2023–Oct 20, 2026



Source: supplied Supporting Figures, Fig6_Nishikawa_Px (Yahoo Finance); JPX disclosure dated Feb 10, 2025; company split disclosure.
Last point is within an incomplete week. Prices are split-adjusted; dividend forecasts above are not. No new price-data download was performed.

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Figure 6 note: the split took effect April 1, 2025. Prices are split-adjusted; dividend forecasts are pre-split. The final observation is October 20, 2026, within an incomplete week.

The Engine and the Transmission

None of this replaces investor relations. It changes what investor relations is for.

Think of fundamentals as the engine and IR as the transmission. The cash flows the business generates are the only thing that ultimately supports a share price. Capital allocation determines how that cash reaches shareholders. IR determines how many investors are watching when it does. A strong story with no cash flow behind it is a promotion, and the market works that out eventually. Strong cash flow with no story behind it is an undiscovered company, and that state of affairs can last a long time.

The ownership effect of buybacks below intrinsic value does not require an immediate market re-rating. If the market refuses to re-rate a company buying back its shares below intrinsic value, each remaining holder simply owns more of the business every quarter, and a sustainable regular dividend can attract

income-oriented investors. A dividend distributes value rather than creating it by itself, and it does not establish a share-price floor. That is what makes the mechanics so powerful at microcap scale: they compound whether or not the market has noticed. Good IR shortens the wait. Consistent guidance, earnings calls held in US hours, English disclosure released at the same time as Japanese, voluntary quarterly updates from a Nasdaq-listed foreign private issuer that is generally exempt from Form 10-Q and must also meet annual reporting, interim financial statement and applicable Form 6-K disclosure requirements, a presence at the microcap conferences where small-cap investors actually look for ideas, and, in time, research coverage. Each of these increases the number of investors who care about the story, and the speed at which value shows up in the price.

The order is what matters. Fundamentals first, capital allocation second, amplification third. Companies that reverse it, buying attention before they have earned it, usually find the attention fades and the price follows it down.

The Odds Are Yours to Set

There is no guarantee that a well-run microcap trades at fair value in any given quarter. But over a long enough horizon the odds are not set by the market. They are set by the company: by the cash flows it builds, by the discipline with which it routes them through the four questions, and by the effort it puts into making sure the right investors are watching. Management cannot vote its share price up. It can make it very difficult for the market to keep it down.

Spirit Advisors works with Japanese and Asian companies before and after a US listing, from readiness and SEC registration through post-listing capital strategy and investor communication. If your company is asking why the market is not paying for what you have built, the decision tree is where we would start the conversation.

Figure 1 adapted and redrawn by Spirit Advisors from Credit Suisse Investment Bank, Corporate Insights, "Capital Allocation: Paths to Value" (2021); tile commentary is Spirit Advisors'. Case-study figures are drawn from company SEC filings and disclosures; share-price histories from Yahoo Finance and Digrin (not dividend-adjusted; Nishikawa Rubber split-adjusted), as cited in the accompanying sources file; past share-price performance is not indicative of future results.

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