

**AN INTRODUCTION TO THE PRACTICE
OF INVESTOR RELATIONS**

Prepared as a Teaching Guide

June 1991

by Wesley E. Truesdell

AN INTRODUCTION TO THE PRACTICE OF INVESTOR RELATIONS

1. World economy

-- commerce is what makes economies go

-- money is the lifeblood of commerce

-- it permits governments, businesses, people to function

-- they need money, use it, hoard it, spend it, lose it,
invest it, borrow it, and even profit from it sometimes

2. Businesses raise money (capital) for inventories, land, plant and equipment, salaries, and even takeovers

-- by borrowing from banks, usually short term

-- by taking on long-term debt -- bonds, debentures

-- by using other debt instruments -- bankers'
acceptances, commercial paper

-- by selling ownership interests in the company to
investors -- in the form of stock

-- creditors loan money; stockholders own the company

-- stockholders elect directors who appoint managers to
run it

3. The return to creditors is usually in the form of interest payments over a stated period of time; return to stockholders is in the form of dividends, potentially forever

4. Liquidity is important in most investment decisions

-- investors will buy stocks/bonds if they can resell them easily

-- U.S. stock exchanges; OTC markets

-- Major world markets: Tokyo, New York, London

-- Others include Amsterdam, Frankfurt, Paris, Geneva/Zurich, Hong Kong, Osaka, Milan

5. Regulation of the markets

-- self regulation by stock exchanges -- U.S.

-- stockbroker compliance operations

-- National Association of Securities Dealers

-- SEC surveillance of markets, brokers, underwritings and investment companies

-- has power to correct

-- also corporate oversight (accounting, new issues)

-- prosecutes misdeeds (civil); sometimes with Justice Department (criminal)

-- CFTC, Federal Reserve, FDIC, others

-- Canada, Britain, France, Switzerland, Japan, varying regulatory climates

6. What is investor relations?

-- essentially, a marketing communications program directed at investors and potential investors

-- not unlike public relations

-- using many similar techniques

-- but with numbers

-- directed at sophisticated audiences

7. Why does a company need an investor relations program?

-- to attract new investors and retain existing ones

-- to assist in achieving fair market value for company's shares

-- to treat all investors, potential investors, fairly and equally -- individuals, professionals, institutions

-- "everyone has an IR program": peer pressure

-- contact with stockholders is mandated by SEC, NYSE regulations

-- so, if we do it, let's do it well

8. What benefits might a good IR program bring?

- re-identify company: new directions, new operations, new management, new products
- engender general shareholder support for what the board of directors and management wish to undertake; develop loyalty for difficult times
- earn highest possible P/E ratio (relative to other, similar companies, or to the market generally)
- or, in other words, help to achieve fair value for shares through increased visibility
- long term, a good program will help raise new capital at the lowest possible cost
- attract more stockholders; redistribute stock
- help prevent hostile attacks
- make stock easier to use for acquisitions

9. Why does a corporation need an investor relations policy?

- so as to treat all audiences equally
- to determine "off limits" information areas
- to identify designated spokespersons, and those who are not
- should we forecast or not?
- how to respond to rumors and crisis situations

10. Audiences

- buy- and sell-side analysts
- individual shareholders
- institutional holders
- portfolio managers
- prospective investors generally
- banks; investment advisors; rating services
- employees, customers, suppliers
- regulators
- peer-group companies
- business and financial press; trade press; broadcast
- potential acquisitions

11. What do individual shareholders want?

- a sense of confidence that their money is well invested; their holdings liquid
- that management has a business plan and is making it work; "in control"
- clear, understandable financial reports, delivered on a timely basis
- a good proxy mechanism, and annual meeting
- an easy way to contact the company with questions or suggestions, so they get the feeling their voice is being heard

12. What do professional investors want?

- all of items in #11, plus
- reasonably direct access to top management, CEO and CFO
- a continuing and sophisticated information flow
- a competent, knowledgeable IR staff

13. Developing an Investor Relations plan

- determine long-range business and financial objectives of the corporation: within that context, IR should
 - set reasonable goals: target P/E, number of individual/institutional shareholders, based upon size and type of company, approximate revenues and earnings levels
 - do a management "audit"
 - develop consensus
 - write a preliminary IR plan with objectives, strategy, implementation tactics, etc.
- what do the professionals know about us?
 - which ones are interested?
 - what should they know?
 - do an analyst (and/or stockholder) survey
- what does media coverage say?

- match management objectives to analyst interest level and knowledge, to determine which IR activities will be most effective

- set specific goals: (see #8)

- can they be measured?

- revise program activities
 - develop communications strategy

 - schedule of tactical approaches

 - meetings with analysts, brokers

 - how will we use printed materials

 - how much financial press relations

 - direct mail, advertising

 - develop an IR policy in writing--communicate it internally

- price out the cost of activities -- budget

- develop one-, two- and three-year time-line activity plans -- with objectives

14. Which printed materials are available, or needed?

- annual report, and 10-K
- 10-Q and 8K
- fact book, corporate brochure, management profiles
- proxy statement; prospectus
- slides, film, video
- the new "short form" Summary Annual Report
- corporate advertising

15. Are printed materials adequate?

- annual, quarterly reports
 - review against competition
 - review against award winners
 - ask the stockholders in a survey
- does fact book give data which analysts say they want, breakdowns, etc.
- are films and/or slide presentations clear, lucid, meaningful; short

16. How do we find the analysts we want to reach?

-- Technometrics service

-- Nelson's directory

-- Institutional Investor's "all Stars" list

-- FAF lists (directory)

-- specialists vs. generalists vs. special-situation

-- who follows the competition; read the press

-- foreign analysts: banks, brokers, unit trusts

17. How and when do we meet with analysts/brokers?

-- one-on-one; small groups

-- organized security analyst societies

-- "splinter" groups; company sponsored meetings

-- FAF conventions

-- Wall Street Transcript, Institutional Investor

-- annual meeting

-- due-diligence "road shows"

-- overseas tours

18. How can we use direct response?

-- develop mailing lists

-- use which printed materials?

-- mail public relations "big hits"

-- a response mechanism: telephone 800# or "hot line"

19. What do we give to the financial press?

-- everything "material" (define)

-- earnings reports, dividend announcements, stock splits, borrowings, management changes, new issues,

-- new products, patents, construction programs, mergers, purchases

-- "backgrounders"

-- Procedures needed for

-- news distribution

-- monitoring, follow-up

20. How to measure effectiveness

- gauge attainment of pre-stated objectives
- analysts who follow regularly (vs. formerly)
- production of written recommendations by analysts, rating services
- analysts who don't follow. Why?
- stock-price movement vs. competition
- P/E ratio vs. competitors, S&P index
- are we on major stock broker "buy lists"
- stock trading volume; redistribution
- use of corporate messages, "theme" or stance lines, in broker reports and in media coverage
- surveys: analysts, brokers, stockholders, press

21. Corporate Restructuring

- response to competitive pressures
- failure of Investor Relations
- proxy fight vs. cash tender offer
- arbitrage
- readily available financing
- use of high-yield, "junk" bonds
- domination by institutions
- foreign takeovers vs. domestic

22. Miscellaneous considerations for IR and PR professionals

- blend IR/PR activities -- at the corporate level
- higher visibility for CEO, CFO
- spokesperson training needed?
- product- or service-line promotion to analysts?
- where are we traded--effective specialist?
- review, update oral presentations regularly
- effective films, slides, charts, models, displays?
- quarterly or monthly review of CDA, Vickers, 13-f filings vs. competition--Investor Identification Manual
- peer-group analyses
- will advertising be useful?
 - media selection, cost, evaluation
- recordkeeping
 - telephone log; hotline monitoring
 - short analyst surveys; measure change
- periodic reports to CEO, CFO; planning meetings to update
 - justification of program

- larger budgets

- internal communications mechanism to other senior or divisional corporate officers

- rating services; Value Line, S&P Outlook, Moody's

- NYSSA -- tapes, videos, PSN (Investor Research Network)

- must be "professional" in facts about your company and with knowledge about your industry

- NIRI membership; local, national participation

- participate and "publish"

- recognition for company and you--in trade, financial press

- enter annual report and IR program competitions

- read the business press
 - Wall Street Journal

 - major local newspapers

 - Investor's Daily, Financial Times

 - Barron's, Forbes, Business Week, Fortune, Financial World

 - Institutional Investor; II newsletters

 - Nihon Keizei Shimbun, Far Eastern Economic Review, etc.

 - your industry's major trade books

23. Ongoing trends affecting Investor Relations

- big institutional holders, i.e. pension funds, are (a) organizing in groups for more influence, i.e., Council of Institutional Investors, (b) becoming more aggressive about their corporate holdings
- the big Wall Street houses and banks have shrunk staffs, and this will continue, particularly as commission dollars are harder to get and merger/takeover fees come down because of competitive pressures
- world financial markets will continue to influence one another, especially as big U.S. and Japanese firms expand in each others' countries and elsewhere. International IR becoming more important.
- the market-volatility problem, and the phenomena of futures and options trading on stocks and indexes, together with "program trading" and "portfolio insurance," will not be dealt with easily
- hostile and friendly takeover attempts will continue, especially from overseas sources, so long as businesses appear undervalued and the U.S. dollar remains comparatively weak; plus the U.S. problem of recording "good will"
- U.S. authorities are actively encouraging a broadening of the private placement market (Rule 144A), and this may seriously affect liquidity and interest in the public markets
- some of the major business and financial media, principally wire services, data providers and newspapers, are extending their influence worldwide
- cross-Atlantic video now not uncommon

Corporate IR