

Perspectives on Investor Communications:

IR Challenges, Priorities and Actions

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Study Background

- **242 telephone interviews with senior IROs**

- ✦ 102 S&P 500 IROs
- ✦ 65 S&P 400 Mid-cap IROs
- ✦ 75 S&P 600 Small-cap IROs

- **Other US subgroup breakdowns**

- ✦ Market capitalization
- ✦ Gender
- ✦ Years of IR experience
- ✦ S&P Sector

Study Background

● **Research Objectives:**

- ◆ Clarify IR challenges/how they are being addressed
- ◆ Benchmark current IR practices
- ◆ Profile the IRO and IR department
- ◆ Compare/contrast by market index
- ◆ Build database to support strategic IR decisions

The Frenzied IR Environment

- **Multitude of IRO responsibilities**
- **Hyperactive travel schedule**

	S&P 500	S&P 400	S&P 600
Roadshows (Q)	78%	75%	79%
Conferences (A)	7.6	6.6	6.3
1-on-1s (A)	159	146	106

The Frenzied IR Environment

• Limited resources – insufficient staffing?

	S&P 500	S&P 400	S&P 600
Staff	2.2	1.6	1.2
Support	0.9	0.8	0.7

• Exposure to the board

	S&P 500	S&P 400	S&P 600
Attend	40%	43%	40%
Present (Regularly)	13%	26%	21%

The Frenzied IR Environment

- **Rising regulatory risk and indecision**

- ✦ Enforcement of Reg. FD
- ✦ What distinguishes a material event?
- ✦ Earnings guidance (give/don't give, how often?)
- ✦ Sarbanes-Oxley
- ✦ Rising lawsuit risk

Setting Priorities

● “High” priority goals



Setting Priorities

- Top priorities align with challenges



Dealing with Priorities

- **Reg. FD compliance – backlash?**
 - ◆ 86% aware of Flowserve case in US
 - ◆ 40% of US firms have responded with defensive moves – reviewing practices, qualifying statements
 - ◆ 7% of US firms have responded by no longer updating or confirming guidance during the quarter

Dealing with Priorities

● Disclosure on the rise?

✦ Typical earnings release:

- Earnings – 100%
- Revenues – 100%
- Balance Sheet – 92%
- Margins – 83%
- Cash Flows – 74%
- Capex – 61%

✦ By business unit:

- Revenues – 69%
- Earnings – 46%
- Margins – 41%
- Capex – 14%
- Balance Sheet – 9%
- Cash Flows – 7%

Dealing with Priorities

● Guidance on the decline

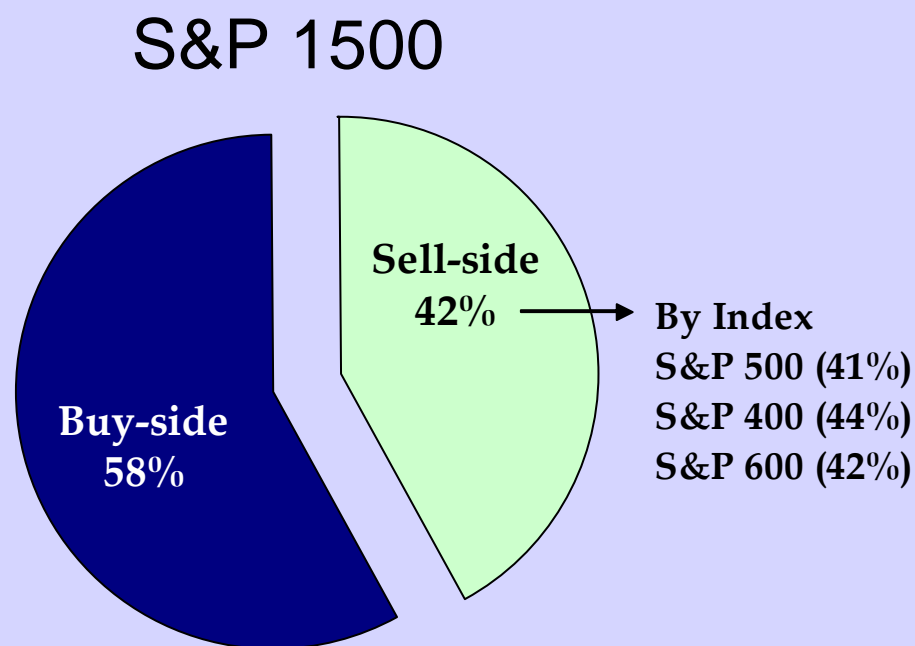
✦ Trends:

- ✦ 77% in 2003 providing earnings guidance as compared to 71% in 2005
- ✦ More companies considering dropping guidance: 36% in 2005 vs. 22% in 2003

✦ Source: NIRI data

Dealing with Priorities

- Clarify the message – sell-side communications



Dealing with Priorities – Roadshow Participation

- ✦ S&P 1500 typically hold one *investor day* a year
- ✦ Roadshow – IRO coordinates

S&P 500:

- IRO (94%)
- **CFO (84%)**
- CEO (61%)
- Operations (19%)

S&P 400:

- IRO (91%)
- **CFO (86%)**
- CEO (75%)
- Operations (11%)

S&P 600:

- IRO (85%)
- **CFO (81%)**
- CEO (76%)
- Operations (15%)

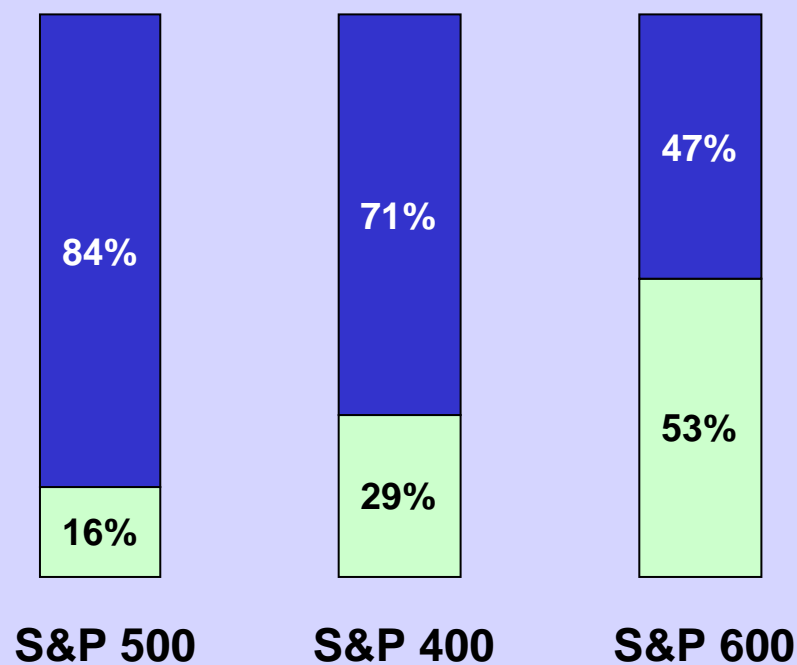
Dealing with Priorities

- **Measuring message consistency/clarity – a means of judging IR effectiveness**
 - Message clarity/resonance via feedback from surveys
 - 16%
 - Message clarity/resonance as reflected in content of analyst reports
 - 23%
 - Message clarity/resonance as reflected in informal feedback from investment professionals
 - 25%

Dealing with Priorities

● Clarify the message - Coordinating IR and PR

- IR and PR are separate departments with their own directors
- IR and PR are integrated under one director



Dealing with Priorities

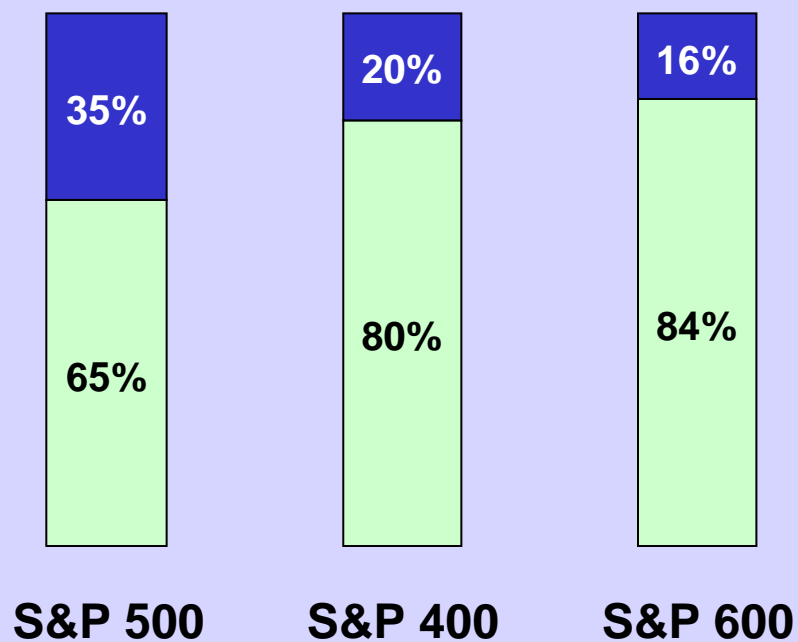
● **Being in the strategic loop**

- Modest progress to date
- Limited resources
- Limited access to board
- Inherent biases persist – IRO as intermediary
- Few entrusted to meet investment professionals without senior company management present

Dealing with Priorities

- Despite large number of 1-on-1 meetings, few are conducted solo

■ Meetings conducted by IRO alone
■ Meetings conducted with management



Concluding Observations

● IR is at the forefront but remains a spectator

- Out in front of investment professionals but with not enough perceived clout
- Mismatch between its value to investors and management
- Frustration with this constraint and extensive responsibilities
- Typically does not have a seat at the table

Concluding Observations

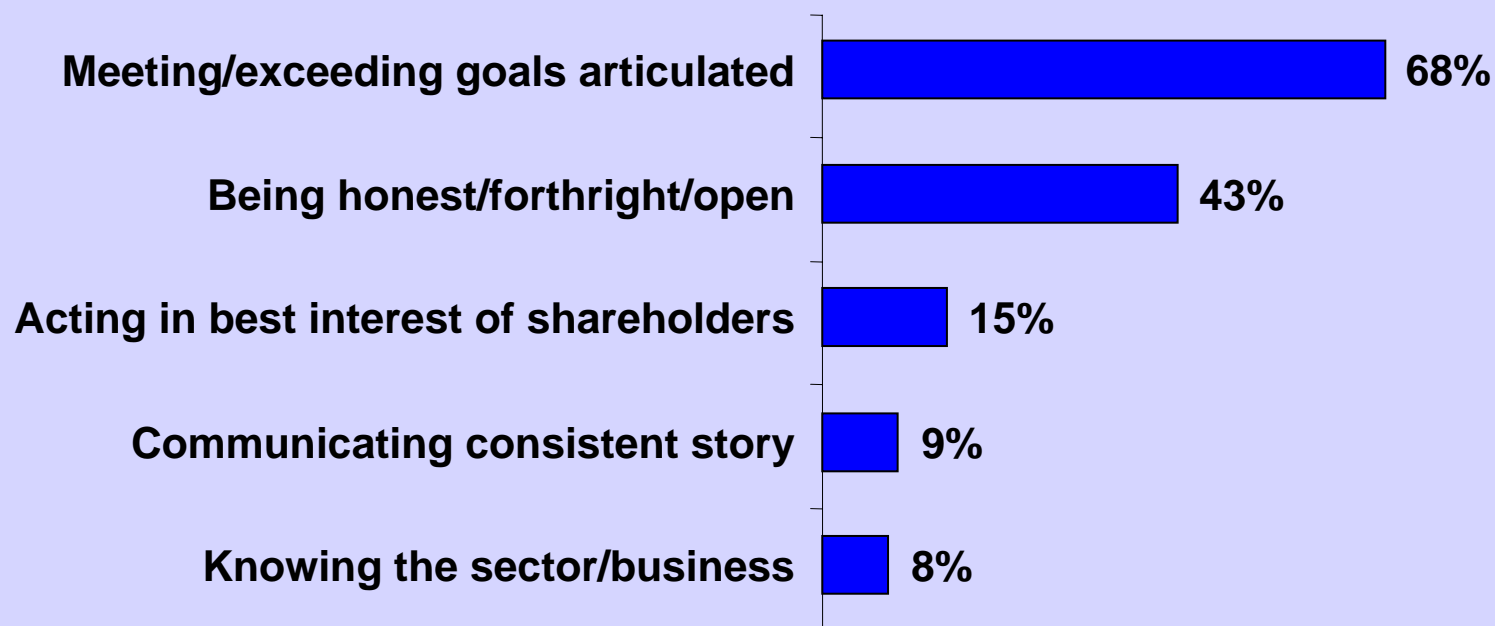
● How does IR get closer to management/board?:

- Build your credibility internally and externally – Prove the value of IR
 - Be the expert
 - Ensure compliance (protect the company)
 - Help management and board understand how strategic decisions affect the Street
 - Strive for message clarity
 - Communicate with the appropriate audience
 - Achieve transparency – greater disclosure
 - Take on 1-on-1 responsibility

Concluding Observations

● How does IR get closer to management/board?:

- Help management build their credibility



From Rivel's 2005 study "Perspectives on the Buy-Side"

Concluding Observations

• Outcomes:

- ✦ IR seen as chief communications officer and strategic advisor to management, not meeting planner or stock promoter
- ✦ Change in how you are measured
- ✦ Value to the firm as indispensable
- ✦ Seat moved closer to the table