

## Adjusting IR Programming to the Current Investing Environment

With the equity and credit markets undergoing repeated shocks and expectations for the US economy ranging from poor to, well, very poor, investors are heeding the advice that Warren Buffet gave to Charlie Rose last week – stay liquid. This changed behavior and evident anxiety about future conditions call for public companies to make some adjustments to their investor relations communications and programming tactics, for the time being at least. We offer the following ideas.

### Quarterly Communications – More, not Less

During Q3 reporting, our task will be to communicate as realistically and in as measured a fashion as we can – boasts of unfounded optimism and, with rare exception, economic resistance and counter-cyclicality, will not be believed or rewarded. We anticipate investors will find only minimal comfort in at-expectations third quarter results as they anticipate that most if not all public companies will experience at least some economy-related deterioration of fundamentals during 2009.

Particularly during times of market distress, investors tend to be more alarmed by risks that are un-quantified and of indeterminate horizon than they are by risks that are calculable and immediate. A higher, more straightforward and, where needed, more frequent level of disclosure is therefore in order. We recommend:

- The obvious risk factors –
  - Quantify exposure to at-risk sectors and already-present evidence of weakening economic conditions – financial services, housing related, consumer spending, etc.
  - Discuss observations of customer and competitor behavior and new business pipeline health, even if only anecdotal and though business trends may thus far have remained stable
  - Offer granular working capital and bad debt analysis, if necessary adding the following metrics to the information set: accounts receivable aging and collectability, DSOs, days payable, inventory aging, bad debt experience and potential write-offs of any current assets or liabilities
  - Provide updates on availability of credit to the company and its customers, particularly if access or financing terms have changed
  - Provide assessments of which capital expenditures and spending programs are discretionary and can be reined in to conserve cash should conditions worsen
  - Increase detail on cash flow and free cash flow generation particularly if on the positive/negative cusp
  - Keep reporting good news when there is good news – this goes without saying
  
- The less obvious
  - Provide some directional assessment for 2009 in Q3 communications – investors will be intolerant of any reluctance to look down the road as they are more concerned

- about long-term than near-term fundamentals – even though visibility is near zero, at least discuss the potential range of expectations that management is factoring into its strategic and financial planning
- Discuss what cushion may exist to weather a prolonged downturn and the company's ability to withstand and plans to adjust to a terrible-case scenario, including possible major shifts in strategy (this can be left for Q&A on conference calls, but it is advisable to be prepared to discuss)
  - Provide historical perspective on past recession experience, company history permitting
  - Outline what is being done to (realistically) win new customers where possible now, even if at reduced prices or contract sizes, in the hopes of building loyalty in order to expand share of wallet in better times
  - Stock repurchases – investors will expect to hear about plans for stock buybacks – management teams will need to have a point of view on whether they believe it is better to provide liquidity by repurchasing stock now or to conserve cash in order to hunker down for a potential economic storm. We are here to discuss pros and cons with you.
  - To pre-announce or not to pre-announce? IBM pre-announced its quarterly results in an effort to calm roiled markets and the comfort provided was short-lived. Still, this choice was probably an appropriate move for IBM given its position as a bellwether. We understand the impulse to preview good results, particularly if peer companies are already reporting or pre-announcing disappointments, but urge this option be carefully considered on a case by case basis given that investors are likely to remain distracted by the prevailing crisis on any given day. Alternatively, companies who report late in the cycle might consider moving up the reporting date as is practical.

### **IR Programming – Stay Visible**

Even though new investment is not flowing into equities as an asset class at the moment, it is important during times of stress for public companies to maintain as high a level of visibility and communication flow as time and budget allow. Companies which fall off Wall Street's radar screens now may find it difficult to get back on when the environment improves so we recommend if at all possible not doing so by choice. Some ideas:

- News flow - Reevaluate the news release pipeline to see if there is real news – not fluff – even if not of a material nature, that can be added to maintain more frequent communications. Also, more and more online news sites can accommodate XHTML language, which provides a richer experience for the reader, so include the company logo in newswire submissions and hyperlink the company name and any IR site addresses in press release text.
- Buy-side interaction
  - Keep close contact with current investors and reach out immediately to new non-Index, non-Quant entrants into the stock to begin building a relationship. To this end, LHA will carefully review conference call participation and 13-F filings.
  - Maintain a minimum level of buy side outreach. Even now, there are institutions looking for buying ideas, and many investors we speak with are responding positively to introductions to companies new to them. This willingness will increase as the market settles down and investors, including former stockholders, start building their wish lists for new investment. This outreach can be accomplished while minimizing travel expense – LHA can target potential investors who are likely to step back into the market earlier and schedule 1 or 2 meetings for you in a city management is visiting for business purposes. Marketing conference calls are also on the rise as investors themselves travel less.

- Quarterly quiet periods – in highly anxious environments, investors sometimes just need to hear a senior executive's voice, even if the quarter is closed and conducting a meaningful conversation is impossible without violating Reg FD. It is better at times such as this to return the investor's call personally as a matter of courtesy, bearing in mind that they are listening for tone as much as content, and clearly state that the quarter just closed is not up for discussion than to not return the call at all.
- Sell-side interaction
  - Maintain frequency of contact with covering analysts – this may seem an obvious statement, but now is the time to keep the lines of communication open
  - Accept conference invitations even if business is not great – it is likely that all sector participants are experiencing the same pressures, and it is better to show up and further the discussion of the situation than to be invisible
  - Develop relationships with non-covering sector analysts. In the near term, the contraction in the number of analysts writing research on any given sector is likely to continue, further jeopardizing current research coverage, particularly for small-cap stocks. It will be important to forge relationships with those who remain in order to cultivate potential new coverage. Further, even if these analysts do not assume coverage, they will need something new to talk about to their institutional sales forces and their clients, and being part of their daily calls increases visibility with investors.

### **Afterword**

Until there is real evidence that general economic conditions are bottoming, management teams should expect to meet a high level of investment community cynicism - analysts and investors will at best take everything said with a grain of salt, and will continually challenge management's worst case scenarios. At some point in the months to come, however, the equity investors who have remained liquid and have weathered the downturn will begin to look for new areas of investment. Companies who have best managed their businesses as well as their communications and outreach during this tough time are likely to be the beneficiaries of their renewed attention.