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Role of the investor relations firm

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How an IR firm can assist a company in preparing for a successful IPO and in assuming the responsibilities associated with being a public company post-IPO.

This chapter offers an overview of the role of an investor relations firm and its main objectives both during a company's pre-IPO process and throughout its life as a public company.

The aims of a strong investor relations program are to create consistent, credible communications practices to comply with NASDAQ listing rules and requirements and SEC legal requirements; to elevate the company's standing as a public company to be at least commensurate with its industry positioning; and to achieve full valuation. An investor relations firm applies best practices to developing an investor relations program, just as accountants do to preparing and reporting financial statements and attorneys do when overseeing corporate practices. Specifically, an external IR counselor provides:

- A bridge between management and the financial community to enhance management's relationship with analysts and investors;
- Sophisticated guidance and counsel on key topics such as shaping the company's message to prospective investors and the financial community; communicating news and events; the timing and content of disclosure, as well as financial guidance; and financial community relations;
- Market intelligence, including tracking investor and analyst perceptions and sentiments regarding the company;
- Marketing impetus and support to increase visibility of the company's public image; and

- Support with administrative tasks, such as issuing press releases, communicating with the NASDAQ surveillance team and maintaining the IR infrastructure.

The following specific steps in the pre-IPO process, and the IR firm's role in each, are discussed in detail below:

- Establishing message positioning;
- Pricing day activities;
- Creating a workable IR infrastructure and communications procedures;
- External procedures – disclosure and marketing communications;
- First post-IPO quarterly results process; and
- Post-IPO investor relations opportunities.

Establishing message positioning

Once the decision has been made to pursue a listing on The NASDAQ Stock Market, one of the first steps the company should take is to build the investment case that will be marketed to investors. Working together with the investment bank(s) selected by the company, the IR firm's role at this stage of the pre-IPO process is to help the company (also known as the issuer) to establish a strong and accurate messaging platform that can be sustained after the IPO.

While it may seem obvious, many a new public company has had its valuation derailed because its investment case that was sold to Wall Street and upon which investors bought IPO stock did not match its actual strategy and fundamentals. This becomes abundantly and

unpleasantly clear when the new issuer reports its first quarterly results as a public company and may be a particular concern for foreign-based issuers, who may be less familiar with the idiosyncrasies of the U.S. investment community. An investor relations firm's primary objective is to support a new issuer's story, and it can accomplish this by:

- Reviewing, with management, IPO messages created by the investment bankers to ensure a messaging platform is established that accurately represents the company's positioning and opportunities;
- Creating a set of reportable metrics that demonstrate the issuer's progress with regards to its strategic plan (aside from financial results) over time;
- Setting its guidance policy: helping the company to determine whether forward-looking guidance should be given to investors, and if so, which metrics will be used for forward-looking statements;
- Coaching management in presentation skills;
- Developing a list of questions that management are likely to be asked on the roadshow by investors and collaborating on developing answers;
- Auditing peer group disclosure practices; and
- Providing information, as appropriate, on roadshow meeting participants.

Many of these activities inform and will be expanded in the later stages of the pre-IPO phase.

Pricing day activities

The SEC recently proposed new rules that would loosen the existing rigid restrictions on communications to the press during and immediately after an IPO by companies seeking to go public. While these rules are not yet finalized, and in their current form may apply most directly to large, well-known companies, the proposed regulations clearly show that the SEC wishes to adopt a less severe approach in this area.

An IR firm can assist a new issuer by organizing media outreach in conjunction with other pricing day activities at the NASDAQ MarketSite which can help create more visibility for a new IPO in a crowded market. This is particularly useful for management teams not used to dealing with the press, as it can help senior staff to build media handling skills which will benefit the issuer later. These activities include:

- Coordinating with a NASDAQ representative to arrange a listing day ceremony at NASDAQ MarketSite, including the ceremonial ringing of the opening bell; and
- Organizing media-related listing day activities, including the development of media-focused talking points, coaching management in press Q&A, and marketing the pricing release to news outlets to create interview opportunities where appropriate.

Creating a workable IR infrastructure and communications procedures – decisions to be made before listing

During the pre-IPO phase, an investor relations firm can help the company put in place a practical, workable internal IR infrastructure. This infrastructure is crucial to managing post-IPO investor relations procedures and to ensuring compliance with SEC regulations and NASDAQ listing rules including Sarbanes-Oxley, Regulation FD, Form 8-K filings, and NASDAQ market surveillance rules. In addi-

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tion, implementing the IR infrastructure should include instituting mandatory education programs for employees on the company's responsibilities as a newly public entity. An efficient process to support these elements should also be established during this period. Amid the rush of IPO preparations, new issuers sometimes neglect this step and have to backfill after the company has gone public. Hence, an IR firm will be instrumental in helping to deal with most of the planning in this area. This is particularly applicable to foreign issuers for whom an added layer of safety can be critical in ensuring continued compliance with U.S. regulations and NASDAQ listing requirements.

Some aspects of the IR infrastructure are simple administrative tasks, while others demand a complex decision-making process and have significant implications that will shape the issuer's public company identity post-IPO. Once all the functioning elements of the infrastructure have been established, it will be ready to 'go live' on the first day of trading and operate smoothly in real time when the issuer's 25-day quiet period is over. Grouped by type, the elements of the IR infrastructure include the following:

Determining the composition of the IR working group to manage the IR messaging and disclosure process

The IR working group should be comprised of members of the issuer's management, in particular, the CEO, CFO, controller, internal IRO, marketing communications executive and general counsel, and the IR firm.

The IR messaging and disclosure process must include the creation of a mechanism that will keep this working group updated on the scope of company information currently in, and out of, the public domain on an ongoing basis. An IR firm assists in educating the working group members on issuer regulations, NASDAQ listing requirements, Regulation FD, Form 8-K rules and IR best practices during

the pre-IPO phase, and helps to shape disclosure and non-disclosure messaging, incorporating market intelligence once the IPO is completed.

Creating SOX-compliant financial reporting systems and procedures

The Sarbanes-Oxley Act (SOX) recommends the establishment of a disclosure committee to oversee the financial control process and provide guidelines for decision-making.

A company should work with its attorneys and accountants to ensure that its internal financial controls and reporting systems are SOX compliant. Further, to smooth the process of reporting quarterly results as a public company, it is a good idea for a company to begin closing the books and reporting to the board as if it were a public company and creating results-related messages together with its IR consultants while it is still private.

The company must also create a whistleblower voice mailbox.

Creating a mechanism for responding to incoming investor inquiries

The company should set up an IR voice mailbox for incoming investor inquiries.

It should also create a 'contact us' page in the IR section of the website where investors can request information and post questions.

Assigning public company spokespeople and defining their roles and responsibilities

To keep external messaging focused and consistent, only a few key company representa-

tives should be permitted to speak publicly on behalf of the issuer to any audience. These spokespeople in general include, but are not always limited to, the CEO, CFO, senior EVPs and marketing communications representatives.

Of these, only one or two, usually the CEO and CFO, should be responsible for direct contact with analysts, investors, and the financial media. During the pre-IPO process, an IR firm helps to:

- Identify key company representatives to all external audiences;
- Identify key company representatives to the investment community;
- Train spokespeople in post-IPO communications – teaching them to converse comfortably with analysts, investors, and members of the media while reinforcing the story and preventing accidental disclosures of non-public information, including:
 - Managing expectations – avoiding unintentionally creating expectations;
 - Conveying strong leadership, confidence, capability, and knowledge in both overt and subtle ways to the listener;
 - Keeping messaging consistent over time and across spokespeople;
 - Understanding the 'dos and don'ts' of speaking with Wall Street and reporters;
 - Fielding questions effectively while staying on message; and
 - Educating spokespeople on issuer regulations, SEC disclosure rules, and IR best practices.

All other employees should be prohibited by company policy from speaking publicly and should be given direction on how to direct incoming inquiries.

Establishing a disclosure policy

Both Regulation FD and SOX suggest issuers have a written disclosure policy document, and while not mandated, this is increasingly becoming a component of investor relations best practice. Creating a disclosure policy is a project the IR firm can spearhead. Such a document accomplishes several objectives:

- Records internal guidelines and rules for employee behavior with respect to communicating with reporters, family, friends, colleagues and business contacts;
- Sets insider trading guidelines;
- Communicates regulations surrounding a lockup expiration;
- Creates a process to educate employees on all the above internal rules and on the responsibilities of working for a public company; and
- For Section 16 filers (rules governing stock trading by the issuer's directors, officers, and principal stockholders) – includes a gating process in which IRO/corporate counsel must approve insider transactions before they take place based on information disclosed in the public domain.

It is a good idea during the pre-IPO process to think through what appropriate guidelines are likely to apply to future press release disclosures. A company should consider:

- Internal materiality parameters specific to the company that serve as future guidelines for when a disclosure must be made; and
- Incorporating 8-K rules into disclosure criteria and procedures.

Establishing a guidance policy

The decision of whether to issue guidance is a far-reaching one that will influence a new issuer's disclosure policy, its relationships with analysts and investors and its public company image. An IR firm can help sift through the factors impacting this choice, including the company's financial visibility, sector dynamics and peer company behavior. Whatever choice is made, a guidance policy that includes the following elements should be set up:

- Guidance parameters, including which specific financial metrics and associated time frames will be subject to forward-looking statements (if guidance will indeed be issued);
- A safe harbor statement which incorporates a clause indicating no duty to update the guidance;
- An internal policy on updating guidance when the results appear to differ materially from the guidance issued; and
- A pre-announcement policy, which includes the identification of pre-announcement hurdles to determine whether or not revised guidance will be issued (some companies choose not to pre-announce as a policy, but

this is really only a viable option for large-capitalization companies).

Setting up an administrative press release procedure

During the pre-IPO phase, an IR firm can help to establish press release procedures so that releases are ready to be issued and distributed upon pricing. These procedures govern internal routing and review, attorney review, auditor review (if needed) and the appointment of the person responsible for company sign-off. An IR firm can draft or edit drafts of such releases, as the company prefers. Once the release has been finalized, the IR firm will handle the NASDAQ MarketWatch alert, issue the release to the newswire and distribute it to analysts and investors.

External procedures – disclosure and marketing communications

Now that the internal investor relations infrastructure has been established, a robust external communications program can be created that will be supported by it. A company should complete this phase during the quiet period after IPO pricing, so that the program can be fully implemented once the quiet period ends. As a preliminary step, the IR firm will:

Perform a peer group investor relations practices audit to learn about IR practices of companies in the peer group

This includes looking at:

- Disclosure and guidance policies;
- Reportable metric sets;

- Earnings release dates and conference call times;
- Conference call protocols and content;
- Tone, content and frequency of press releases;
- Use of website for financial audiences;
- Information kits and fulfillment procedures; and
- Participation in brokerage sponsored conferences.

Begin developing an IR calendar

The IR calendar will contain the following events:

- Quarterly reporting;
- Board of directors' meetings;
- Appearances at industry/investor conferences;
- Quiet periods;
- Insider trading black-out periods;
- Analyst/investor roadshows; and
- Trade shows.

Develop collateral materials

A well-crafted set of collateral materials is an integral component of a strong investor relations program. These materials create visuals that reinforce the story, support investors' conceptualization of the company's strategy and help achieve legal compliance. The primary elements of collateral materials are the IR page on the company website, a two-page fact sheet, the investor kit and the investor presentation. The IR firm guides the company through the development of the following:

Website

There is no need to maintain the IR section of the website in-house; there are several providers who are capable of doing this and the IR firm can help a company choose from among them.

Such provider and the IR consultant can help the company to develop regulation-mandated as well as non-mandated content for the initial launch of the IR page and the addition of content thereafter. Such content should include:

- A corporate governance section – regulatory and NASDAQ guidelines mandate an explanation of the composition of the board of directors and its committees, identification of outside directors and the inclusion of a code of ethics and other governance documents;
- SOX Regulation G – Regulation G defines disclosure rules with respect to GAAP and non-GAAP information, for which compliance can be achieved by posting reconciliations on corporate websites;
- CEO and CFO certification of financial statements in accordance with SOX Section 302, which can reinforce investor confidence;
- Disclosures of insider transactions;
- A web inquiry page allowing investors, particularly retail investors, to request more information from the company;
- The company's SEC filings, which can be efficiently distributed via the IR web page;
- Other investor information – the IR page can serve as a superior delivery method of other relevant company information, such as histori-

cal stock prices, dividend reinvestment programs, transfer agent contact information, as well as the company's corporate profile and investor fact sheet, which an IR firm can help develop;

- Frequently asked IR questions (FAQs) section – a staple of any IR page, a FAQ section contains certain standard questions that are found on almost any issuer's website as well as company and sector specific questions that will be pertinent to the company's shareholders. The company's IR firm can help determine the question and answer set;
- A list of events, quarterly webcasts, upcoming and past conference and trade show presentations and the like, which should be added after the quiet period.

Fact sheets

A fact sheet is an attractively laid-out, one-page double-sided verbal snapshot of a company that states the investment case and lays out statistics vital to the investment decision making process. This document is intended to be updated quarterly as well as to reflect any significant event, (e.g., an acquisition or senior management hire) and therefore has a fixed shelf life. The IR firm creates this document, ensuring that it fits with the story told on the company's post-IPO marketing roadshow.

Investor kits

A critical element of a strong profile within the investment community is the creation of an investor kit. Kits provide packaged information

about the company and are used to educate marketing targets and spark interest in a potential meeting with the company's management after the IPO. The IR firm will guide the company on the contents of the kit, which can include: the fact sheet, recent SEC filings, recent press releases, financial releases covering four quarters, pertinent news articles, and other marketing materials.

Investor presentations

After the IPO, the company's investor presentations will need to evolve with its story, strategy, and the passage of time. Investor presentations often serve as the backbone of an issuer's messaging and should be developed with the help of the IR firm.

Create an IR contact distribution list

The last element of the external communications program which should be put in place before the quiet period ends is the IR distribution list containing analyst and investor contacts. As this database enables timely delivery and notification of news to the company's most important Wall Street contacts, it is important that it be developed prior to pricing so that the press release announcing the completion of the company's IPO can be the first disclosure communication Wall Street receives from the company. The IR firm spearheads this project, and the distribution list contains:

Key sell-side contacts

While investment banking analysts include the company's story in their research coverage

universes, there will be other influential analysts who cover the company's peers that may eventually be interested in covering that company as well. It is important to begin cultivating such relationships from day one as a public company. The IR firm targets these analysts and includes them in the contact list.

Key buy-side contacts

During the IPO roadshow, the issuer will meet numerous investors, many of whom will buy stock during the IPO and some that will evaluate the company's performance in the aftermarket. It is critical to maintain close touch with these new and potential investors and keep them updated on corporate events. Additionally, the IR firm will identify other suitable buy-side targets for potential future investments, including peer and sector holders, and include these in the contact list as well.

Other contacts

The contact list also offers an efficient disclosure dissemination vehicle for other important corporate contacts, including members of the board of directors and the company's venture capitalists, investment bankers, attorneys, etc. The IR firm will help the company identify and include these people in the list.

First post-IPO quarterly results process

A NASDAQ issuer's first quarterly results report usually represents its first real disclosure event as a public company, and it is a crucial one. Investors often look to the first quarterly results release as a determining factor in their contin-

ued investment. Therefore, this event acts as a 'state of the union address' which sets the tone for the new public company's story, establishes its future plans and identifies associated milestones and catalysts to reach corporate objectives. Especially for non-U.S. issuers, this event firmly fixes the issuer's intention to communicate in a robust fashion with the U.S. investment community. The IR firm is well placed to help the company prepare for this important post-IPO event. The IR firm will:

- Schedule the quarterly conference call and webcast and issue an advisory of the call to the newswires and contact distribution list;
- Review and analyze the quarterly results and strategic progress to be reported against internal and external expectations during the IPO process, as well as the quarterly performances of the company's publicly-traded peers;
- Develop messages and metrics from these analyses that accurately describe results, strategic development and successes as well as challenges;
- Draft and edit quarterly results releases and conference call scripts for all management speakers, develop webcast slide content and draft potential questions that the company's management may encounter during the conference call, as well as answers to them;
- Rehearse the delivery of the script with management and practice Q&A to ensure the team is comfortable delivering the mes-

sages and speaking in both scripted and impromptu situations;

- Issue the results release to NASDAQ MarketWatch and newswires and conduct the call and webcast; and
- Gather and analyze feedback on the conference call from call participants and determine which messages resonated with analysts and investors, where messaging can be made clearer and what opportunities can be captured during future calls, all of which will be presented in a written report.

Post-IPO investor relations opportunities

Once the issuer has completed a NASDAQ listing, the IR firm will take on the management of the company's investor relations program. Since up to 40 percent of a CEO's time can be taken up with the responsibilities relating to the company's public status, having a resource in place to keep this process running efficiently can be invaluable, particularly for foreign-based issuers. After the IPO the following IR activities are important:

Messaging and communications

After the IPO quiet period, the key messages of a NASDAQ issuer's story and slide presentation may need to be modified from a transaction sales approach to an educational and strategic positioning approach. Additionally, the story should be updated to include any issues raised by investors during the IPO roadshow, as well as news reported since pricing, and be modified over time to include reported

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results and major corporate events. The investor relations firm will collaborate closely with the company's management on this task, incorporating first-hand knowledge of Wall Street's perceptions to date, as well as information about competitors' and peers' strategic progress to keep the company's investment case and supporting collateral materials, fresh, relevant, and in step with the strength of its fundamental performance.

Investment community outreach

At some point after the investment banking research analysts have begun coverage after the company's NASDAQ IPO, the responsibility for investment community outreach will begin to gradually transfer from the investment bankers and research analysts to the issuer. An IR firm will support the company in building up a robust outreach program in the following ways:

Helping field incoming inquiries from investors

Institutional as well as retail investors are likely to request more information on the company's strategy, reported results, and other corporate developments. An IR firm can help handle both the volume and the complexity of these requests, prioritizing them to direct the most important ones straight to the investor contact in the management team and fielding simpler requests on its own.

Marketing the company proactively after the IPO

It is integral to any strong IR program that the company's management visits analysts and investors one-on-one. While the analysts covering a company will invite members of the company's management to investor conferences and take them marketing, most investors respond positively to marketing trips conducted under a NASDAQ issuer's own auspices, without the attached institutional sales obligations inherent in a broker-sponsored roadshow. Further, one-on-one and group marketing is a good way to raise visibility and build relationships with new sell-side analysts. Much like IPO roadshows, these marketing trips are usually exciting but exhausting. An IR firm will assist in these efforts by creating target lists, pitching meetings and setting up itineraries to meet with existing and potential new analysts and investors, efficiently leveraging management's time.

Managing the IR calendar

As a rule, a NASDAQ issuer should interact with Wall Street once every six weeks in some form to maintain strong visibility with the investment community, enhance Wall Street's perception of the vitality of the story, and keep the investment case moving forward. An IR firm can manage this process by maintaining an investor relations calendar of the following events:

- Quarterly results releases and conference calls;
- Non-financial news releases (new business wins, corporate events, etc);
- Investor conferences;
- Marketing roadshows;
- Trade show appearances; and
- Media stories.

In closing, the practice of excellent investor relations blends financial statement analysis and disclosure regulation compliance with the arts of communication and strategic planning. The pre-IPO and quiet period phases are the correct time for the company's management team to make sure it is ready to take on the significant added responsibilities and time demands that it faces once the company goes public. An IR firm is the company's ally in preparing and supporting it in these efforts.