



Westbrook *on the line*

COMMUNICATION 09

There will be nothing routine about listed companies announcing results and achievements this year. In fact, ditching the routine and reassessing entirely how the story is to be communicated is probably the way to approach communication in times like these.

The reading and watching audience will also be larger.

While financial markets and the media are the principal outlets for communication, employees, retail investors and government will be looking increasingly for a lead on how companies are faring in unprecedented times.

Confronted with expectations about frank disclosure that things will not be as rosy as they were last year, listed companies face a few alternatives.

They can attempt to lie low, thinking that nothing they can say in this market will make a difference.

Alternatively, they can attempt to emphasise all the positives about their businesses to counteract the surrounding gloom.

Neither of these alternatives will work - silence is death and glossing over reality is not going to be believed.

The most realistic approach is to be forthcoming about a re-examination of a business's fundamentals, how it is prepared to weather the current climate and its positioning for uncertain times as well as the recovery that will ultimately come.

As companies prepare announcements this year, there are four subject areas they should keep in mind:

Business model

As much as the market wants to know how a business is faring right now, it also needs a perspective on whether the business model is sustainable.

This means providing a broader discussion on the business and how it meets the needs of customers, not just covering current price and demand fluctuations but also a re-examination of the underlying strengths of the model that substantiate a longer term perspective.

Context

A business story is more compelling if it is not just company-centric but looks beyond its own circumstances to bring in its sector and competitors. This provides an opportunity to reflect a wider understanding of a market, a business's selling proposition and its competitive advantage.

Complete financial picture

It is not a time for a partial financial snapshot but rather an explanation that takes in earnings, cost management, the balance sheet, cash flow and funding. This portrays management as pro-active and highlights the real drivers of the business rather than entirely blaming external factors for performance.

Future

There is no need to reveal forecasts in this environment but this should not imply an absence of strategic planning or curtailment of new developments. These are the aspects to cover in talking about the future and to engender confidence that your company will be around to deliver it.

There has never been a more important time to focus on the business story rather than the share price. The business is the message.

As stockbroker, Todd Guyot, says in Q+A (page 2), now is not a time for companies to stop communicating.





Q+A TODD GUYOT, FORESIGHT SECURITIES

In over 20 years, stockbroker, Todd Guyot of Foresight Securities, has never seen such conditions in the stockmarket but, even though he believes recovery won't be until later this calendar year at the earliest, he also thinks listed companies need to continue to communicate to position for the turnaround. He spoke to Ian Westbrook about these issues.

So what's your view on the market right now?

It's really tough and every sector is getting worse. The market may not have bottomed yet and there are still a lot of companies likely to fail. What has happened is unprecedented. Credit markets are very tight and lending has come to a halt in the US and this is rebounding globally. Any recovery is still some way off and won't be until later this calendar year at the earliest.

Are there any positives?

There are several. What governments are doing around the world to provide economic stimulus is important and will contribute to a turnaround. Valuations of stocks have also come down, with P/Es at historic lows, although while prices have fallen there are still lower earnings to come.

So how have small caps been affected?

The small caps industrial index is down 58 per cent from its peak last year which has certainly established some new value propositions. In November 2007, P/Es for this sector were at their highest for 20 years at 18.5 times earnings and now they are at 10.2 times, well below the historic average of 12.7 times. However, what is to come is lower earnings and we're forecasting that 78 per cent of the 85 companies

we follow will have downside earnings risk in the forthcoming results season. There's been a flight to quality and this has certainly affected small caps.

What do you look for in companies in these times?

In a sense nothing changes since we're focused on earnings. We prefer this approach to discounted cash flows and we pay attention to what management of companies are saying.

+A

We keep in touch with company management to gain insights and add value to investing opportunities. Earnings and knowing what drives earnings for businesses is the key to establishing value. In today's market a strong balance sheet is also critical. Many companies went into this downturn with too much debt and this hinders their chances of survival.

So what should small cap CEOs be doing right now?

The important thing is survival. CEOs have seen their share prices plummet but if they can show their businesses can withstand the current downturn and come out the other end in good shape, they are good prospects and the ones best leveraged for recovery. They need to focus on their businesses and make sure they're there when the cycle picks up.

Is communication still important for small caps right now?

It's still important but they shouldn't expect too much from it in terms of immediate market reaction and they need to make sure they really have something to say. They still need to keep up disclosure, stay on the radar and show they are likely to be in the group of survivors. Companies with a good story need to maintain a profile although attracting attention for small companies is hard in this market. The most likely news is earnings downgrades and since

capital protection is critical we are likely to see decreases in dividends so this needs explanation and placing in a longer term context. In results season the better companies still need to do conference calls, see their brokers and meet institutional shareholders. Attendances at results presentations will be down significantly but nevertheless announcements will still be looked at closely, although more with a view to assessing recovery prospects than any immediate buying intention.

Is maintaining a media profile worthwhile in the current climate?

Small companies benefit from publicity so long as the reporting is accurate. These companies need access to capital and institutional investors and one of the ways of achieving this is to have a media profile so it's important in this respect.

How are your fund manager clients reacting to current market conditions?

This market is tough on fund managers but there is a lot of money captive to the sector, with compulsory super fund contributions continuing, and so there are mandates to invest and a need to rotate the portfolio across the better prospects. They have cleared a lot of the risky stocks from their portfolios. Our job is to help them stay ahead of the curve and make sure earnings

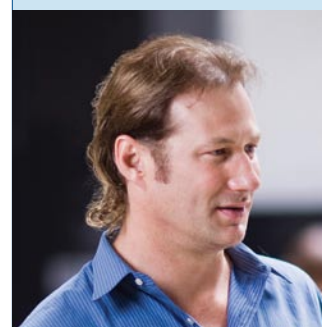
downgrades are reflected in share price. The lower prices go the stronger the base for recovery.

So how are you communicating with your client base?

We continue the same routine. We're specialists in small caps and monitor a bigger proportion of that market than any other broker. We cover about 85 stocks and pick on three each day which we highlight with a morning bulletin. We follow this up with a market view at the end of the day, picking up on situations and highlights of activity. The media often use these reports to assist coverage of the small caps market.

So what's the outlook for 2009?

The market looks forward nine months and it's not showing any signs of recovery yet and may not do so for some time. Unemployment is increasing daily and nothing will recover while people live in fear of losing their jobs. You make money out of small caps when you come out the other side of markets like this. The market will recover and, while it's hard to be definite about timing, it will do so quickly and strongly, led by large caps and followed by small caps. Housing will likely be one of the first sectors to show signs of recovery, assisted by the first homeowners grant.



Todd Guyot is a Director of Foresight Securities, a privately owned, independent stockbroking firm based in Sydney, Australia and which is recognised as a market leader in the small to mid sized industrials market. Foresight's aim is to provide value add equity research & dealing to wholesale investors trading in Australian equities. Todd focuses exclusively on small industrial research, assisting many companies to increase their profile with institutions and assist in capital raisings. He covers a variety of industry segments and was recently acknowledged in the 'Financial Review Analyst Awards, Australia and New Zealand' as the number one stock picker in the Telecom Services & Information Technology segment for the second year in a row.



BOOK REVIEW

The New Public, Professional Communication and the Means of Social Influence

Leon H Mayhew

(Cambridge University Press, Cambridge)

Is there a connection between the use of spin in communication today and the rhetoric of Plato?

There is and it's a betrayal of the ideals of the Greek philosophers, according to American academic, Leon Mayhew.

Mayhew observes that communication in the current era has been taken over by "professionals" who are more focused on manipulating a consensus of public opinion than presenting rational arguments persuasively in the tradition of Plato.

As examples of these methods of spin he sees sound-bite journalism, thirty second political advertising, evasive question answering by public figures and the marketing of ideas and candidates by methods developed in commercial market research.

While Mayhew focuses on politics, his analysis applies equally to business, where spin, in putting a gloss over company issues and performance, is often at odds with the frank rhetoric that investment markets prefer.

For Mayhew, the "new public" in the title of his book has a double meaning - it reflects a corruption of the influential role of the public in the era of spin as well as describing how things could be different if sincerity were restored to public rhetoric.

Perhaps the current disciples of Mayhew might see in Barack Obama an echo of the ancient Greek forums, with rhetoric once again combining rational argument, eloquence and sincerity as a form of public persuasion.

COMMUNICATION COUNTS

Investment community research in the US by Rivel Research Group (www.rivel.com) has found that investor relations has an effect on share price and that media coverage attracts institutional investors.

Rivel's survey found that a median premium of 10 per cent is associated with superb investor relations, while a median discount of 15 per cent was associated with poor investor relations.

For 83 per cent of those surveyed, articles appearing in general business and trade publications were the next most important way after their own research that potential companies for investment were identified.

The leading factors for evaluating companies were management credibility (77 per cent), and effective business strategy (74 per cent), both of which were the outcome of "superb" investor relations.

"Poor" investor relations reflected a failure to articulate a simple and effective plan to investors, with messages either being all over the place or buried under too much information.

CLIENT COMMENTS

"I'm more than happy to take Westbrook's steer on this - the advice they've given us for PR in Australia has added value to our business,"

Global Marketing Director, financial products business

"We wouldn't release any ASX announcement without talking to you first - you understand our business and its current circumstances and you know how we should express our views for the investment community and the media"

Chairman, ASX Listed Company

"You are the only PR firm we have used that can get results for us in the financial media, or any media for that matter"

Chief Executive, International Group



AFR/Rod Clement



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