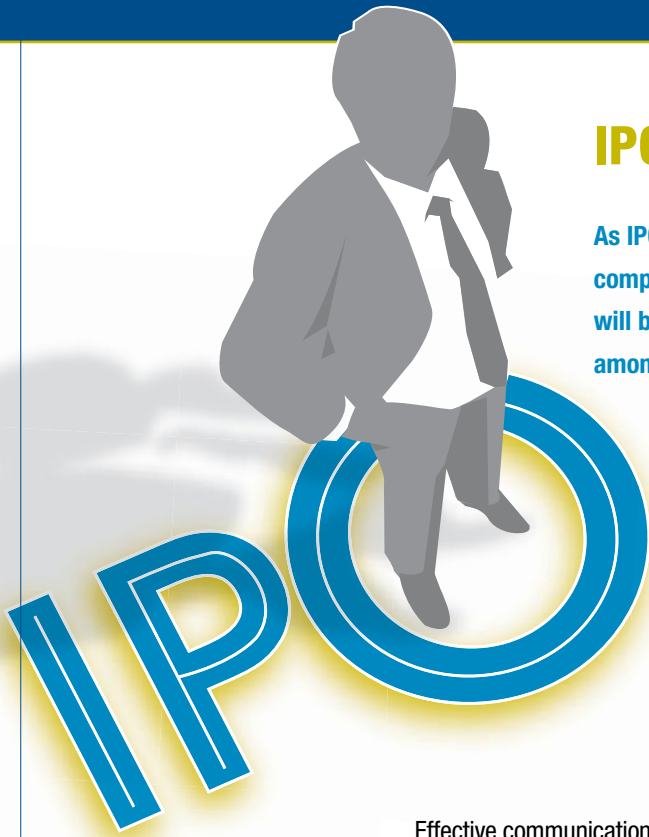




Westbrook *on the line*



IPO HORIZONS

As IPOs become more prevalent again and compete for investors' funds, communication will be the issue that differentiates value amongst them.

The ASX in its literature about the road to an IPO highlights the need for communication to the media and investment community as an important ingredient of a successful IPO.

An IPO communication program can have three phases, with the first being to establish the corporate story and awareness of a company as it prepares to explain its expansion plans.

The second phase of IPO marketing combines the lead up of prospectus preparation and then the roadshow which enables showcasing the corporate story and building relationships with the media and investment community.

Effective communication in this phase is critical since it involves gaining the confidence of wholesale and retail investors in management's capability to deliver future growth.

The third phase follows listing and maintains communication and news flow to align corporate performance with milestones and the value communicated at the time of the IPO.

Over the years we have been communications adviser on over 50 IPOs, spanning a variety of industry sectors, company sizes and market environment issues, with a number of these programs being award winning.

From this we have developed the **FIVE C's**, the critical components of any successful IPO campaign:

1 Content of the corporate story, which explains the business model and competitive advantage, is the core communications element and substantiates the adage that share price is more of a story than a number;

2 Communicating the key messages, in writing and verbally, should create a newsworthy campaign theme;

3 Creativity in the logistics of the roadshow can bring added media coverage and broaden the reach to a variety of investors;

4 Cultivating relationships with the media and investment community during the IPO roadshow can build longer term followers;

5 Catastrophes can happen so risk management has to be built into the communications program.

While each IPO is distinctive, a common element is that the communications lead up to the first day of life as a listed company is an important determinant of the ongoing journey.

COMMUNICATION 2010

A recent US survey highlights investment community expectations about company performance and communication. It reflects similar views in Australia and key findings are:

- growth is a key theme but presentations need to show companies are positioned to achieve it;
- acquisitions are viewed positively if they add to earnings and are strategic;
- strategy and investing for future growth need to be communicated;
- China is still viewed as a top growth opportunity;
- increased visibility is expected from management, especially in communicating business trends.

The general view is that "the worst is behind us" and that companies need to set aside their bunker mentality. If they reinforce their attributes through communication, it can lead to higher valuations.

It is now time for companies to move on from demonstrating an ability to survive to communicating about growth potential, competitive positioning and the evolution of the business model to drive profitability, the survey, by Corbin Perception Group, concludes.



Q+A JACK LOWENSTEIN, HUNTER HALL

From a career spanning the ivy covered walls of Oxford, international journalism and stockbroking and funds management in Australia, Hunter Hall director, Jack Lowenstein, has a number of perspectives on the world of investment. He spoke to Ian Westbrook about them.

What's the biggest lesson from the market turmoil of the past year or so?

For me, the first lesson comes from the fact that the corporate world was as shocked by the economic and financial convulsions as the investment community. You can't assume that, even if a company is well managed, it is any better at forecasting than investors. Before the downturn, when

cash was pouring in, companies were buying back their shares – and often we were urging them to do so - right at the top of the market. So that brings me to the second lesson which is, humility. Humility is a virtue we encourage in companies in which we invest and the investment community needs to keep this in mind for itself as well.

What do you think of as effective communication by listed companies?

Companies need to be thinking more over the horizon than just the next quarter. Communication is effective when it's a clear and honest depiction of events and explains how a company will adjust its business model. What's not effective is trying to spin events to manipulate a vision of the

future. That destroys trust. While numbers should speak for themselves, they usually need a proper explanation.

Do you place a value on effective communication?

In terms of a company's cost of capital, the value of the trust it builds is often not appreciated. As an investor, you can be prepared to take a higher P/E if you trust management. The opposite certainly applies

Q+A

– if there's a lack of trust, companies sell at a discount.

What's the basis of your own investment process?

There are three tiers. Basically we're looking for a good business that generates cash above the cost of reinvesting in itself. Secondly, at a company level, we're looking for a company that takes that cash flow and then adds more value to it over the longer term for shareholders, either through dividends, or buy-backs or investing for growth or a mix of these. Thirdly we focus on the shares, where our search is for those that are cheap so that they provide a margin of safety against market fluctuations. We look for a low enterprise value to EBITDA, low price to book value and an inefficient balance sheet with low gearing. Finding companies that are both cheap and have good growth prospects is a limited universe.

How well do Australian companies tell their story?

There's tremendous variety and while the banks, for example, are brilliant, smaller and medium companies are not so good. Some companies seem to get frustrated when their share price doesn't react to news and they clamor for attention against a noisy background. However, there's a time for talk and a time for action and companies need to watch that too much talk doesn't overshadow their credibility.

The law requires disclosure only when information might move the market and to make ASX announcements for reasons other than this can make companies seem like spruikers and damage their reputation.

How important is the media for ASX listed companies?

We've moved on from newspapers being keepers of the record because there are so many other record keepers out there. The media reports what's exciting, unusual, unexpected or improper and in doing so does a good job at keeping bastards honest. However, newspapers are suffering from the free rider function and this is a worry because we need newspapers. Some smaller companies get more coverage than they deserve but that's probably because they produce more volatile outcomes. The companies we're more interested in are those that are growing steadily and are exciting in the long term - they probably deserve media coverage but don't often get it.

How does Hunter Hall's ethical perspective on investment work?

Our basic view is that we don't want to invest to become richer in a poorer world. So we don't invest in companies that would diminish the human experience. We use a negative screen and avoid what we consider to be bad things. We're not wowsers, we view alcohol

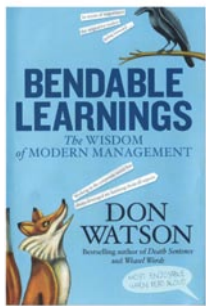
(which we don't exclude, even though we have never bought an alcohol stock) differently to tobacco (which we do exclude). We also avoid companies involved in gambling, weapons manufacture, intensive animal farming and activities harmful to the environment. What we do may put us at a marketing disadvantage but if you combine good returns with an ethical perspective it's a good outcome for everyone.

Should companies make more of their ESG characteristics?

The major responsibility of any company is to make good returns for investors. It should be a given that they do this by treating employees fairly, not destroying the environment and that they're not reckless. We won't invest more just because a company does meet ESG requirements but a company that does embrace these concerns should be more sustainable and produce good long term returns. The role of communication in this is to convey that a company is acting honestly and let the market know promptly if any problems arise - that's a key part of the trust building process.



Jack Lowenstein is an Executive Director and Deputy Chief Investment Officer of Hunter Hall Investment Management Limited, Australia's largest dedicated ethical investment manager. Jack was educated at Oxford, graduating with an MA, and recently completed the part time three year Owner/President Management program at the Harvard Business School. Jack has 16 years experience in investment and corporate finance. Previously he had eight years researching and reporting on international markets for the Euromoney Publications magazine group. He is also Chairman of Kontiki Capital Limited, a Fiji based investment bank, and a Director of Calliden Group Limited.



BOOK REVIEW

Bendable Learnings, the Wisdom of Modern Management

Don Watson

(Knopf, Sydney: 2009)

We've come to know what to expect from Don Watson on management speak, following his previously successful book, Death Sentence. His research highlights some terrific examples which make for amusement but the accumulation of them can be weighty. His magnificent effort is perhaps best appreciated by some examples:

"The strategy is the strategy and the returns are the returns."

Bernie Madoff

"What we do have in this state, I think, is an exciting agenda, going forward, a very positive agenda in terms of education and health, and we've also got some big challenges there that we, you know, we need to get on top of." **John Brumby, Premier of Victoria**

"We're a company with vision and values. BAE Systems is a systems company dedicated to making the intelligent connections needed to deliver innovative solutions to our customers. We're a company with a proud tradition of firsts continuing to take part in making

the world a safer place. Key to our business is our strategic vision and what the company employees value. Our vision is to be the leading systems company, innovating for a safer world."

BAE Systems (the world's fourth largest weapons manufacturer)

"We are guided by integrity, innovation, and a desire for a safer world. Blackwater Worldwide professionals leverage state-of-the-art training facilities, professional program management teams, and innovative manufacturing and production capabilities to deliver world class customer-driven solutions." **Blackwater (the US State Department's biggest private military contractor)**

FEEDBACK

"I've never been involved with any IPO which has resulted in as much media coverage as you have achieved and which has led to such a huge retail subscription."

Director, large Australian Bank

"We can always rely on the information we get from you and print it knowing it is factually correct."

Senior Finance Journalist

"I like using you because you understand our corporate strategy and so all it takes is for me to make a phone call and you can write me a speech, a letter to shareholders, a presentation, a stock exchange announcement or Annual Report."

Chairman, ASX Listed Company

BEING IN THE MEDIA

Research by Crikey and the Australian Centre of Independent Journalism at the University of Technology, Sydney, has found that 55 per cent of stories across 10 mainstream newspapers were driven by some form of public relations.

In tabloid papers, the percentages were higher, with The Daily Telegraph showing 70 per cent of stories were triggered by public relations and The Herald Sun, 65 per cent.

Outcome for the Australian Financial Review was 51 per cent.

Some 24 per cent of articles reviewed were republished press releases but under a journalist's byline.

Business coverage had lower concentrations, with 50 per cent of articles reflecting PR-driven journalism.

A broader study in 2001 by Bond University for the Australian Broadcasting Authority found that public relations people, excluding politicians' press secretaries, were the source for 60 per cent of stories in the front sections of newspapers and 80 per cent in finance sections.



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