

Investor Relations

What is investor relations?

At its most basic, investor relations is about helping investors understand a business.

However, implementing an investor relations program means acknowledging that investors can operate on vastly different levels of understanding and have varied reasons for buying shares.

This variety of investor thinking and understanding adds complexity to the investor relations task, with companies needing to account for this as they communicate about their businesses.

Take, for example, the idea that investors buy shares because they believe a company is well managed. This reason for investment can apply equally well to uninformed investors, sophisticated analysts or savvy investment managers.

However, underlying this simple idea are many investor relations concepts, such as how to create the perception of good management, how to marshal the information to substantiate the claim and how to prove the assertion is valid.

What this example shows is that investor relations combines many disciplines, from marketing to communication, investment analysis and corporate strategy.

It also highlights the need to consult investor relations experts experienced in the complete task of providing input from these many perspectives.

The value of investor relations

A truism of capitalism is that investor relations would not have been invented if it did not deliver value.

Much of the market research that substantiates this value is from the United States and various surveys in recent years have shown the following:

- companies of all sizes committed to investor relations have tended to outperform the S&P 500
- stock premiums of a median 10 per cent apply to companies with good investor relations while a discount of 15 per cent applies where there is poor investor relations
- the leading factors for analysts in evaluating companies are management credibility and effective business strategy, the communication of which are the outcomes of good investor relations

- indicators of poor investor relations are an inability to articulate an effective plan, with key messages buried under too much information
- when asked to nominate one factor that guides a stock recommendation, the vast majority of analysts nominate CEO reputation, again the outcome of effective investor relations

There is also broader empirical evidence that attests to non-financial factors - like image, credibility, reputation and media profile - having an influence on share price, substantiating further the value of investor relations.

Consequently, by focusing on these communications related inputs, investor relations delivers value to shareholders.

The task of investor relations

Primary audiences for investor relations are shareholders, the investment community and the media. Sub categories of these groups are employees and customers who increasingly are shareholders, bankers who provide debt to corporations and ratings agencies which are influential on cost of capital issues.

Each of these groups needs to understand the corporate story, a company's industry sector and its operating environment.

While a primary task of investor relations is preparing this information, a crucial input is how the story is communicated.

This underlines the value of experience in guiding the style and timing of communication of corporate and investor information.

Investor relations cliches

People invest in what they understand
Be quick with the bad news, slow with the good
Under promise and over deliver
Balance integrity with deliverability
Elevate basic values
Perception is reality
Keep shareholders in the picture
Accountability goes beyond financial results
Shareholders don't benefit from a personality cult
Build a long term relationship with the share register
Managers should manage and let the share price look after itself
The market delivers value, not management



Key investor relations activities

ACTIVITY	STRATEGIC VALUE
ASX Announcements	Place initiatives in the context of the corporate story, with key messages for the media and investment community
Results announcements	Add value with presentations to the media and analysts
Investment presentations	Combine key messages and presentation values
Market feedback	Know what the market thinks and shape expectations
Roadshows	Build followers among stockbrokers, institutions, analysts
Investment analysis	Narrow the gap between intrinsic value and share price
Message strategy	Key messages with credible presentation
Corporate governance	Critical attention to the what, how and when of information
Media relations	Crucial in terms of profile, image and conveying the story
Register research	Research shareholder identity, target potential investors
Retail investors	The value of retail demand cannot be underestimated
Major shareholders	Important components in the communications plan
Investor tours	Let investors see operations first hand
Websites	Use the website for communication plus disclosure obligations
Investor newsletters	Shareholders need more updates than an annual report
Annual report	Articulate the corporate strategy and industry context
Annual Meeting	Make it a showpiece for the company's strategy

Westbrook Communications is Australia's leading independent financial public relations firm.

Our team comprises senior people with backgrounds in investment markets and dealing with the media, giving us an edge in advice on communication of business information.

Our years of experience enable us to advise companies on communication with the media, investors and the investment community.

Crucial to this is guidance on the content of what is said and the how and when to maximise its value.

With our input your company can achieve the positioning and recognition it deserves.

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Myths of investor relations

MYTH	REALITY
Let results speak for themselves	Competition for recognition in the capital markets is intense, to the extent that good performance alone will not overcome lack of communication about achievements and strategy
The media never pays any attention to us	Building a media profile takes time, well beyond the impact of a one-off announcement
The analysts just don't understand us	Communication is a two way process - an analyst showing an apparent lack of understanding quite often results from poor corporate communication in the first place or doubts which have not been countered
The media never gets it right	Journalists strive for accuracy and are often thwarted by poor presentation of corporate information and a lack of appreciation about what they need to write responsibly
No-one ever reads our annual report	Readership might be low but the annual report is an investment marketing opportunity to lay out convincingly the corporate story
Our news needs beefing up so the world knows its special	Over use of superlatives, adjectives and adverbs achieve the very opposite of enhancing credibility
We've got some bad news we just need to bury under our recent achievements	Playing down bad news is a natural trait but longer term respect and credibility are best served by being up front about things not working out
Our share price needs a few announcements to get it going	There is little doubt that new information has value in the market place but the genuineness of information is transparent for all to see
All shareholders ever want is a dividend cheque	Don't underestimate the value of shareholder loyalty and winning it with communication and consideration

