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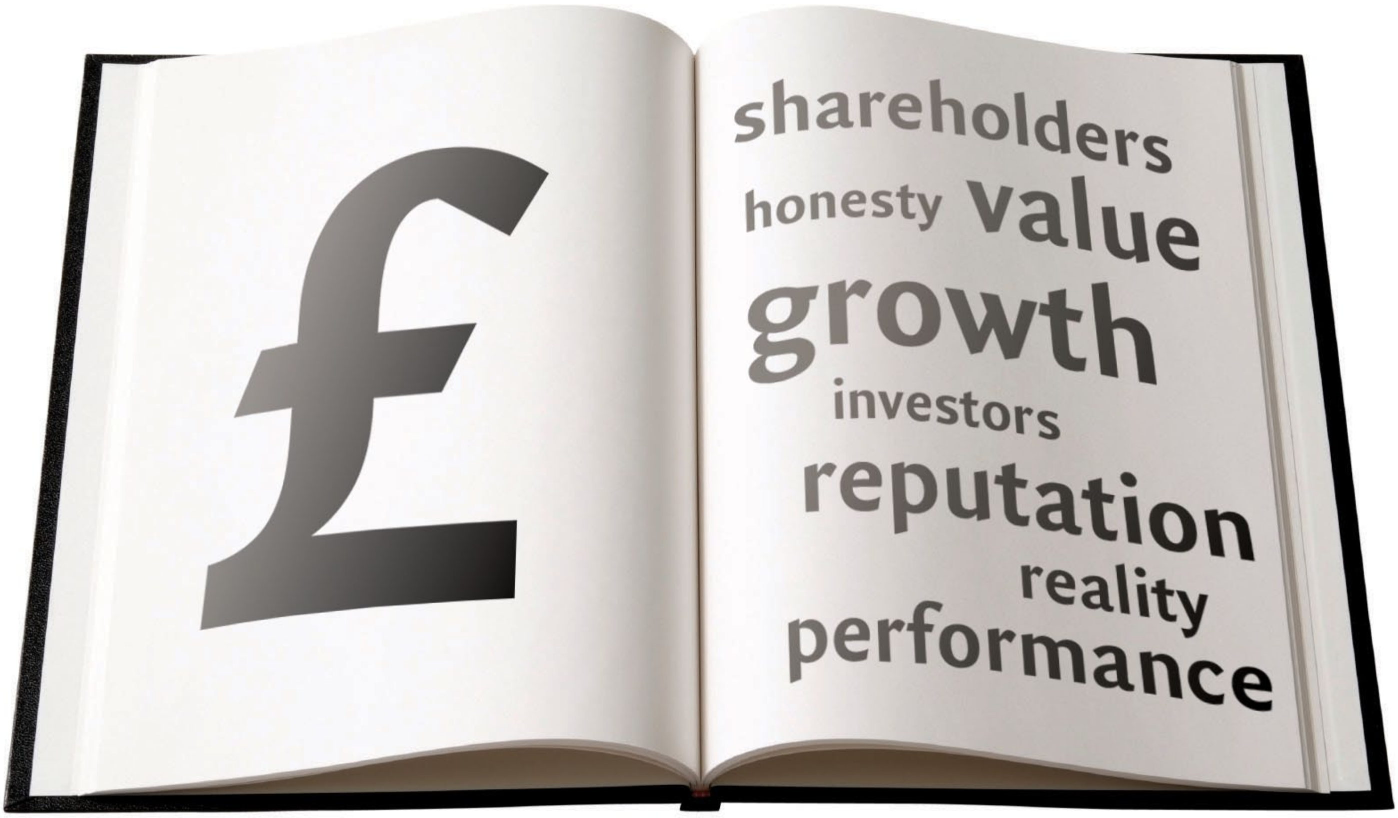
COMMUNICATING VALUE:

How CEOs can lead investor relations



Mastering the art of investor relations is vital for small-caps seeking finance, be it for short-term survival or long-term growth. If driven effectively by an engaged CEO, the value in telling a good story is that it ultimately impacts the bottom line. And if you can't sell the dream, you must go home to your nightmares. In this article, Criticaleye speaks to a range of seasoned CEOs and business leaders to find out how to communicate effectively with investors

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Every CEO wants to see increased shareholder value. But it's not easy balancing the inherent short-termism of being a listed company with making the tough decisions that are in the long-term interests of the business.

Confidence is key for public companies. The CEO must present a consistent message to the market and be clear and consistent in every communication. It means courting shareholders and analysts and telling the right story to capture the imagination of new investors; and reassure existing ones. And The CEO should be aware that one wrong statement could lead to disaster – as Gerald Ratner found out after famously dismissing his own range of jewellery as "cheap tat".

So how should businesses best communicate their performance to shareholders and analysts? Should they change tack and tone when courting potential new investors; How much communication is needed; how often and by whom? And what role will social media play in speeding up the process?

NO SURPRISES

Stevie Spring, CEO of specialist publishing house Future plc, says: "The role of the CEO is as strategist and storyteller-in-chief. Good communication always starts with simplicity, keeping messaging clear and brief, and repeating key messages as often as possible. The same rules apply to shareholders as to employees. They want honesty, no surprises, and to know that you are doing what you say you will do."

Don Elgie, Founder and CEO of Creston plc, an insight and communications company, says: "The predominant issue for small caps is meeting investor expectation. The market abhors surprises so if there is a trading issue, companies need to tell the market in good time. It is difficult enough for small-caps to achieve funding with investors targeting larger, more liquid investment options. Smaller organisations on the Main Market need to be honest and open now if they want to be successful when market sentiment changes. Taking this approach should help reassure investors that small-caps are still a good investment option."

Geraint Anderson, CEO, TT electronics plc, says: "You must have regular dialogue with investors and analysts to build trust and credibility. You need first of all for the investors to understand your strategy and then you need to build their confidence as you execute that strategy. You need also to be very clear in setting the expectations as you will always be judged on what you said you will do. So, good news or bad, it's the same as long as its in line with the strategy and expectations you have set."

Vin Murria, CEO of Advanced Computer Software Group, says: "In a listed environment equity has a value that you can use to fulfil certain objectives, perhaps using it for acquisitive growth, for example. If you're not worried about a stagnant share price you would be unusual. But raising your profile can be useful for achieving M&A aspirations and also to inform your existing customers of your aims and intentions. This all helps to build up a certain level of credibility.

"You should be very clear and deliver your communications in a very structured manner. Don't try to hide or disguise anything; the City will be wise to this. Keep it simple and straightforward."

For evidence of the impact of direct, honest investor relations, take the lead of Reed Hastings, CEO of US internet subscriptions service Netflix. He responded publicly to an investor and succeeded in altering their investment behaviour – the first time that a CEO of Hastings' profile has used a public blog post for this purpose. The public dialogue between Hastings and Whitney Tilson, Managing Partner of T2 Partners LLC, began after Tilson had blogged that Netflix's stock was overpriced; Hastings responded with a public rebuttal in Tilson's blog post, along with an in-person meeting.

The result was that the short-seller covered his short position in the stock: in his letter announcing the closure of T2 Partners' position in Netflix, Tilson said "we now believe that [Netflix] is an even better business than we gave it credit for", and suggested that this was, in part at least, due to Hasting's response to its original position.

HOW AND WHEN SHOULD YOU UPDATE THE MARKETS?

Eventually, every CEO may face the prospect of failing to meet expectations. But management credibility is defined by its communication with the board and with shareholders. While there is no tangible profit to be made from updating the market, this communication could be the CEOs most important transaction – not least as a test of deal brokering and negotiation – as the value of the company could be altered drastically based on what is or isn't said.

Rob Woodward, CEO of STV plc, exemplifies the importance of managing expectations with investors. He says: "STV has been a turnaround story which has required a very specific approach to IR. When I became CEO, I was determined that we needed to re-establish trust as a priority. We set out a very public turnaround plan with KPIs set out for the next three years. We established 12 KPIs, each of which was selected to enable all stakeholders to measure our progress every step of the way. We use the KPIs, as well as the normal financial metrics, in all our City-based communication.

"As well as the regular reporting cycle meetings, we also regularly host investor events in London and at our Glasgow headquarters. In addition, we invite investors and analysts to informal updates where they can meet the full STV executive team."

The value of your assets is commonly related to timing and it is difficult to go against the market once it has made up its mind – analysts are very spreadsheet driven. However, as one Criticaleye Member recently revealed: "If you're feeling undervalued, it's like saying your wife doesn't understand you – you must be able to explain it, walk it and talk it" – you need to be able to sell your story through clear and timely communication, but, ultimately, back it up, too.

Nature abhors a vacuum – if you don't deal with issues, speculation and conjecture fills the void

Stevie says: "Articulating the message of value is always harder when the audience consists of potential investors. With some 1,500 fully quoted companies to choose from, we always have to punch above our weight. The quality of presentations and any thought leadership pieces will provide a good backdrop from which to start building your story.

"We do regular analyst presentations, 'show and tells' and informal dinners, where we'll discuss, for example, digital NPD [new product development] outside of formal reporting channels. But, in essence, analysts forecast from spreadsheets – everything else is a means to an end. In reality, it's a predictive model and they are merely trying to stimulate activity. Low liquidity in a stock is fused into the pricing, so analysts are searching for catalysts for change."

In terms of frequency of communication, it's imperative to think a little further down the track. What you reveal today will invariably come back to haunt you, so it's vital to get it right the first time around.

Vin says: "Some companies will announce everything; others will only communicate carefully considered elements. It's all about managing expectations. If you are prolific during the good times, questions will be asked about you if lines of communication fall silent during the bad. Normally you will report results every six months, but you can also do interim trading updates, somewhere between four and six every month. It depends on your type of business. At ACS, we deliver to our numbers every time, without hiccups. We tell shareholders what we are going to do and we stick to it. I've been in a plc environment for more than 20 years and I know that you are heavily penalised if you don't deliver against what you said you would. After all, the City has a very long memory."

Geraint says: "Of course, you need to decide whether you are looking to win over existing shareholders or looking for new investors that may not know your story. You need to modify the way you explain your strategy depending on whether they are new or existing holders. But you only have, at best, 45 minutes to an hour in the briefing meetings, so you need to make sure all the relevant points are made in this time. It's important to stay focused and not to wander from your objective."

HOW IMPORTANT IS FINANCIAL PR IN THE COMMUNICATION PROCESS?

A small company faced with the rather daunting task of dealing with the media may suddenly realise the value in hiring a professional communications agency.

If you are prolific during the good times, questions will be asked about you if lines of communication fall silent during the bad – and the City has a very long memory

Many listed companies, particularly those on AIM, would testify that their advisor or broker is not their best friend; rather their financial PR is the one really on their side. For those that can afford it, financial PR can drive real value, although much will depend on the size of your business.

Vin says: "We are a £150-175 million enterprise value business and, as such, it's wise to take good advice from our lawyer and financial PR. Financial PRs will understand the agenda of different shareholders, for example, whether they are retail or institutional. It's important to remember that financial PR is very different from any other kind; it's not a sales pitch but a factual update to your shareholders."

Rob says: "Although we had received good service from our previous [financial PR] advisor, I think it is effective occasionally to 'stir the pots' in order to refresh the relationship. From our new advisors we seek three distinct relationship links: with the City pages to ensure our story receives appropriate coverage; with the analyst and fund management community; and, because STV operates in a highly regulated sector, with the political powers-that-be. Having access to the three core skill areas under one house is very useful. It makes for a more efficient process."

Financial PR can be a business' most effective tool as it will help it to adjust its story for the audience (potential investors) – especially if that news isn't all good.

Stevie says: "Dealing with potentially bad news is all about managing expectations. Every crisis communication has had a line that says 'the outlook is cautious' and most analysts or investors are skilled at reading the subtext. So you must be open and honest and make the unexpected part of your risk management strategy. Nature abhors a vacuum. If you don't deal with issues, speculation and conjecture fills the void."

Geraint says: "Financial PR is a key part of the mix as they are the ones to support and direct you to the right analysts – extremely important if you are to get you story across to a wider community."

HOW INTERACTIVE ARE THE RESPECTIVE ROLES OF THOSE ON THE BOARD?

The oxygen of publicity is important to any business but presentations to potential investors don't always generate the desired returns. The objective of the roadshow must therefore be considered up front and, whether the company has just made a large acquisition, launched a new strategy or is attempting to widen its investor base, messaging will need to be crafted to showcase the new ideas that the company wants to get across.

However, passion for the presentation alone might not be enough: witness the over-exuberance of Microsoft's CEO Steve Ballmer (opens up a new window). In most cases your financial PR and communication team can help to shape these events into a success. But should the CEO always be the one driving home the message?

Vin says: "We go to institutional investors as CEO and FD, but it depends on the size and expectations of the shareholders. We might assign a different team of people for to attend certain meetings, especially if there are many in the same period, perhaps at the point when a story is released. You should ask yourself, what does your shareholder base expect? You'll inform the relevant people: financial PR, broker and investor relations, but the process you follow will be different for each set of shareholders."

Geraint says: "The FD and the CEO lead the communication with the investor community. They are the ones that own the strategy and deliver it every day. There is a key role here for the NED, in following up the communications to ensure the story is being understood."

Mike Ashley, CEO of AIM-listed Harvard International plc, says: "The Chairman, CEO and FD scene-set working with advisors to ensure the required messages are being captured. The Board will then review and agree the final communication in a fully interactive session to ensure there is a well balanced and clear end product."

Stevie says: "Potential investors will want to see that you have an attractive offer that has been well managed and has prospects for good growth. It depends on the skill sets you have available internally, but essentially, you'll need more than killer facts and key measurements; you'll need someone to turn the data into insight – a reason to believe. Many people have access to the same data, but you need communicators to interpret it.

"Whenever we've done roadshows to investors, it has just been me and the FD and I believe it is the CEO's role to lead these stories. I take great pride in being at the forefront for all stakeholders, to generate clear and consistent messaging. Remember, the viral movement of today's media means multiple stakeholders are listening to your message, often at the same time."

HOW CAN SOCIAL MEDIA SHARPEN AND QUICKEN THE COMMUNICATION?

There's a growing trend for smaller companies to use webcasting to bolster their IR efforts, not least because the cost of live video streaming has fallen in recent years. If you are comfortable with using the technology, digital channels such as webinars and social media like Twitter allow greater transparency and open communication between all of the stakeholders in play: the investor, the analyst, the financial PR and the CEO.

Take AIM-listed Software Radio Technology (SRT), which has been praised for its unscripted live video webchat for answering questions from investors. **Simon Tucker**, CEO of SRT, answered questions that were emailed from investors in a 37 minute real time unedited session from the company's headquarters. Based on the positive response, SRT is set to make the webchat a regular event, broadcasting several times a year.

Simon says: "We decided to do it as we wanted to inform investors of all sizes about what we do to generate the figures from an operational perspective. Since shareholders own the company and I therefore work for them, I felt the need to react. By giving more information to investors it enables them to make informed long-term investment decisions rather than short-term speculation and understand the ups and downs which are a reality of business."

Mike says: "There is a need today to be much more transparent and dynamic when communicating to shareholders. The marketplace has been opened up by the internet, driving a need for immediacy and constant interaction when new news or changes to expectation occur. Corporate governance also dictates a certain framework, but it is essential that transparency remains core. I favour an open style that highlights strengths and weaknesses while explaining plans to deal with the riskier areas of the business."

However, for small caps rushing to realise the value created from embracing social media conversations with investors, Don offers this caveat: "There is no question that technology is speeding up response times to shareholders. Social media is just one example. However, I don't agree that it necessarily leads to better quality communication. A rubbish message delivered by social media is still rubbish, just delivered more quickly. In fact, the danger is that a quick response time means not enough thought goes into what the message should really be."

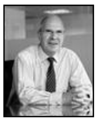
Geraint adds: "I think this is an area that is still under-developed, however, investors or potential investors have the ability to find out a great deal about your company on line so you need to be very well prepared."

Ultimately, communicating with investors, as with any other stakeholder, requires structure and strategy in crafting the right messages for the moment. A long-term plan is essential, as is recognition of the channels, new and traditional, through which investors communicate. While the medium is not necessarily the message, Twitter and its ilk create a distinct style of dialogue and it will become increasingly important to pay due attention to the conversations that happen in new and unlikely places. The CEO must be listening as he or she will invariably be the one driving the relationship with investors and taking the company on the road to generating shareholder value.

Featuring commentary from:

Geraint Anderson
CEO, TT electronics plc

Mike Ashley
CEO, Harvard International plc



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Contact the contributors through www.criticaleye.net