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Senior Perspective: Intelligent IR in Challenging Times

BY PAMELA STYLES

We can all agree on one thing — these are unprecedented and challenging times!

Markets are fragile, market capitalization is abysmal, public confidence and mistrust abound, gross budget constraints have been imposed, and regulatory reach and oversight authority are under review. In addition, there is a climate of uncertainty as to which industry group will get singled out next and what issues the new administration and Capitol Hill will address. So how does this affect the IR practitioner? And what should you do?

In preparation for this month's column, I spoke with a cross-section of my NIRI Senior Roundtable colleagues in several positions — internal IRO, external IR consultancy and professional recruiter, and a senior ranking vendor — to represent diverse vantage points. Conversations focused on investor confidence and overall spending.

Addressing Investor Confidence

Several months ago I found myself in conversation with an IR practitioner who stated that the company's analyst coverage and investors were "freaking out" — they did not believe management's order pipeline figures and financial forecasts, and they were struggling to anticipate potential impacts of shifting federal government spending on the company. This IR professional was trying to get the analysts and investors to calm down, listen, and normally evaluate the company. Did this company need to rebuild investor and analyst trust, confidence, or both? How can you tell the difference?

Senior perspective points to how critical it is for IR practitioners to be aware of the macro environment; to understand whether your company is caught in industry sector or broader market issues, dealing with a self-inflicted situation, or both. You need to restore analyst and investor confidence in the first situation and to rebuild trust in the second. The financial crisis and severe economic decline eroded confidence in corporate earnings power. Consider:

- "Many companies temporarily halted giving guidance during the financial crisis, which was understandable but added to uncertainty. It would have been better to widen your company's guidance range, just give top or bottom line guidance instead of both, or modify your guidance in other appropriate ways. The benefit of forecasting, even in extremely difficult times, is that it helps you maintain more control of analyst and investor expectations and keep them realistic." — *June Filingeri – President, Comm-Partners LLC (Years in IR: 30)*
- "Analysts and investors need to understand your company's story in context. They need help to be able to adjust their own projections on your company relative to broader market and sector dynamics. Lay out assumptions underlying your company forecast and make sure you understand and can defend them. Do not just give a forecast and tell everyone they should believe you." — *Paul Gifford – VP IR, Goodrich Corporation (Years in IR: 14)*



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- “Make sure you never try to ‘sugar-coat’ a situation or give false optimism or a false sense of security. Trying to appease can turn what might have begun as a sector ‘confidence’ issue into a ‘trust’ issue too and make matters worse.” – *Timothy McKenna – VP Investor Relations and Communications, Rockwood Holdings, Inc. (Years in IR: 25)*

Overall Spending

Almost every company has imposed deep spending reductions in reaction to current conditions, whether due to immediate need or conservative positioning. Travel and discretionary spending have been slashed, staff has been cut, and, in some instances, entire investor relations departments (and IRO positions) have been eliminated. Meanwhile, nearly every company is under pressure to

raise capital. The investment community is experiencing dramatic changes and is evolving in every way, from shifting investment styles and investment asset flows to investment firm closures, personnel changes, and new research firms being formed by rationalized senior analysts.

How long will such conditions continue? How has this affected you now? How might this affect you going forward? Remember, recessions become a catalyst for change.

- “Difficult times are an opportunity for resourceful internal IR and senior IR consultants, because management is facing challenges that it is unable to handle and possibly has no first-hand experience. We have just ended a 25-year Bull market. It is frequently forgotten

that there have been long periods of market non-performance, e.g. 18 years from October ’64 – July ’82 when the Dow hovered +/- 800s.” – *Ralph Allen – Managing Partner, Beacon Advisors (Years in IR: 38)*

- “The job of IR has become exponentially more difficult. This is a time, more than ever, when investor tracking and targeting services are strategically critical to help IR keep track of investor rotation and to understand the evolving investment community. IR and management must be prepared to speak with investors, know who to speak with, stay on top of both the investment institutions’ debt and equity positions, anticipate likely questions and sensitivities, and know what parts of their story are resonating. If the strategic importance is not understood, management can be quick to cut non-revenue producing services.” – *Kevin Marcus – President and COO, Ipreo (Years in IR:17)*

- “Management will be inclined to scrutinize who it has in the IR leadership role following this immediate financial crisis. I see companies wanting ‘athletes’ – IROs that are poised and flexible in crisis and who have the financial background, business acumen, interest, and experience to contribute laterally across the company. I believe management will not aggressively add human capital when the uptick comes, but may switch players. Most will be reluctant to support a singular focus IR track.” – *Smooch Reynolds – CEO, The Rapovich Reynolds Group, Inc. (Years in IR:24)*

Senior professionals are beginning to sense a bottom in the overall economic climate. What will recovery be like? Will the equity markets recover slowly over a few years or will they tread water for many years? Keep running “what-if” scenarios to prepare, so you can respond proactively. Smart business teams are starting to reposition themselves to take advantage of recovery.

I cannot quote every Senior Roundtable member, nor include specific comments from every conversation I have in the process of writing this column. My colleagues have much more to add, which will be shared in subsequent columns of “Senior Perspective.” I leave you with some composite **Words of Wisdom.** 

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WORDS OF WISDOM FROM SENIOR PRACTITIONERS

- **COMPOSURE** is extremely important in crises. IR practitioners need to stay calm and focused. Do not panic, over-react, or make the problems bigger by sending mixed signals through poor verbal communications or through body language. Body language (tone, comfort, stress, etc.) can be perceived on the phone, too. Try to be consistent and neutral in your tone.
- **PREPARE** scenarios, meaningful insights, and assumptions. Be candid. Know your audience before introducing management. Be flexible and show that you are an “athlete.”
- **OPPORTUNITY** will come with an upswing. Prepare to position yourself and your company to benefit. Do everything you can to understand the evolving investment community. Be willing to look for the opportunities and be flexible.