

Overview of Investor Relations & IR Programs

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Investor Relations

- *A process through which a public listed company engages in effective two-way communications with its shareholders, the financial community and other stakeholders*
- *the objective is to accurately represent the company affairs, achieve a fair market value for the company's securities and ultimately lower its cost of capital*

Investor Relations

- *Essential business support to attract more investors and enhance credibility and facilitating expansion and growth opportunities.*
- *On an on-going basis IR enables the companies to remain on the radar screen of investors by being covered by analysts and media*
- *Some of the more well-known companies have comprehensive IR strategies in place and actively engage with investors for business growth and sustainability*

A Company IR Program

A Company's IR program traditionally has focused on four main external audiences:

- *Institutional Investors*
- *Financial Media*
- *Private Investors*
- *Analysts*

A Company IR Program

- *The institutional investor audience, (also referred to as the Buy-Side), will be made up of a range of professional investors from various types of financial institutions. They will include hedge funds, private equity funds, life assurance companies, insurance companies, pension funds, unit trusts, investment trusts, and other investment management groups.*
- *These institutions may manage money on their own behalf or on behalf of another fund. For example, it is fairly common for the trustees of company pension funds to appoint a fund management institution to look after day-to-day investment of the fund instead of managing it themselves.*

A Company IR Program

The Large Institutional Investors

Large institutional investors are likely to want direct contact with the companies in which they invest, through presentations and one-on-one meetings.

The investor relations officer should ensure that there is a regular information flow to leading investors and that senior management make themselves available at key times to answer their questions.

Foreign Institutional Investors

- *The growth in foreign institutional ownership should also be taken into account. The globalization of the fund management industry means that IR Officers have found that overseas investors have taken a position in their stock or are interested in doing so.*
- *Market information should be made available to a global audience via the web or other electronic dissemination and, if your shareholder base becomes increasingly international, steps should be taken to ensure that overseas investors are included in presentations and visits.*

Foreign Institutional Investors

- *Each institution has its own style and method of tracking funds and it is important that you understand how each of your institutional shareholders operates –whether they are active or passive trackers of funds, so that you can offer them the information they need and ensure that you retain a strong profile with them.*

The Financial Media

- *The financial media is an important way of ensuring that new or updated corporate information is disseminated to as wide an audience as possible.*
- *Good relationships with financial journalists are crucial to ensuring that your story is covered in leading press, broadcast and online media.*
- *Gaining excellent media coverage can have a significant impact on support for your stock as both institutional and private investors can be swayed by the stories they read, see or hear.*

The Financial Media

- *Becoming a quoted company does move you into a new domain of public interest but it will not guarantee media coverage -there are many other companies vying for attention from the same journalists.*
- *Many quoted companies turn to financial PR advisors as a means of developing those relationships and for strategic advice on how to gain coverage for their story.*
- *The financial PR firm should help you develop relationships with sell-side analysts which, in turn, can be key to positive media coverage.*

Private Investors

Private investors can be a very loyal group of shareholders - most do not trade that often and do not have an ongoing relationship with a bank or broker. The majority rely on the press and direct communication from companies for their information on the stocks that they hold. Other private investors will rely upon advice from their bank, broker or other representative.

Retail brokers are critical to IR for many smaller companies and tend to be less fixated than the large institutions. Some quoted companies focus on links with broker-dealers in their local area to develop a strong private investor following within their region.

Private Investors

A small percentage of private investors will be extremely active investors who make their own investment decisions and trade through a broker on an execution-only basis. These tend to be more difficult to target but can still be reached through broker information packs and direct communications.

Companies also provide incentives that encourage their employees to become shareholders, a factor that the IR function has to take into account when preparing information for the market.

Analyst

- *Buy-side and sell-side analysts will expect to have one-on-one meetings with senior management after major results announcements or during investor road shows by the company.*
- *Investor Relation Officers should ensure that no price-sensitive information is inadvertently leaked during such meetings and announce information to the wider market if the discussion moves into these areas. Many companies arrange site visits for their investors and analysts to provide greater insight into their operations.*

The Power of Market Valuation

- *Some companies new to the market make the mistake of thinking that the aim of their IR function should be to push their share price as high as possible.*
- *Unfortunately, if a company fails to live up to the high expectations it has put out into the market then its stock tends to be punished severely. The result is a depleted share price and a struggle to rebuild trust with investors.*

The Power of Market Valuation

- *Although, too low a rating due to poor or misunderstood fundamentals, or even a lack of information provided to the market, can lead to difficulties in raising finance in the future or increased vulnerability to takeovers. It is better to aim for a 'fair' market valuation which correctly reflects the company's circumstances and its longer-term value.*
- *Know your shareholders and their significance. For example, active fund followers will look closely at*
- *all three, whereas passive followers are likely to only consider the current value.*

The New Paradigm in Equity Value

Equity Value = Financial Performance + *How that performance is interpreted by all stakeholders.*

The second leg of the equation underscores the efficacy of the Investor Relations Program in driving equity value



The New Paradigm in Equity Value

“Earnings, and expectations about them, have become the major driver of stock prices.” - Barron's March 22, 2004



Positioning IR to lever valuations

While Financial Performance is the primary driver of valuations, the secondary drivers are intangibles – dealing with *PERCEPTION*

Valuation is both an art and a science

Science



Financial
Performance and
applied standard
valuation

Art



The communication of
financial performance
relative to
expectations

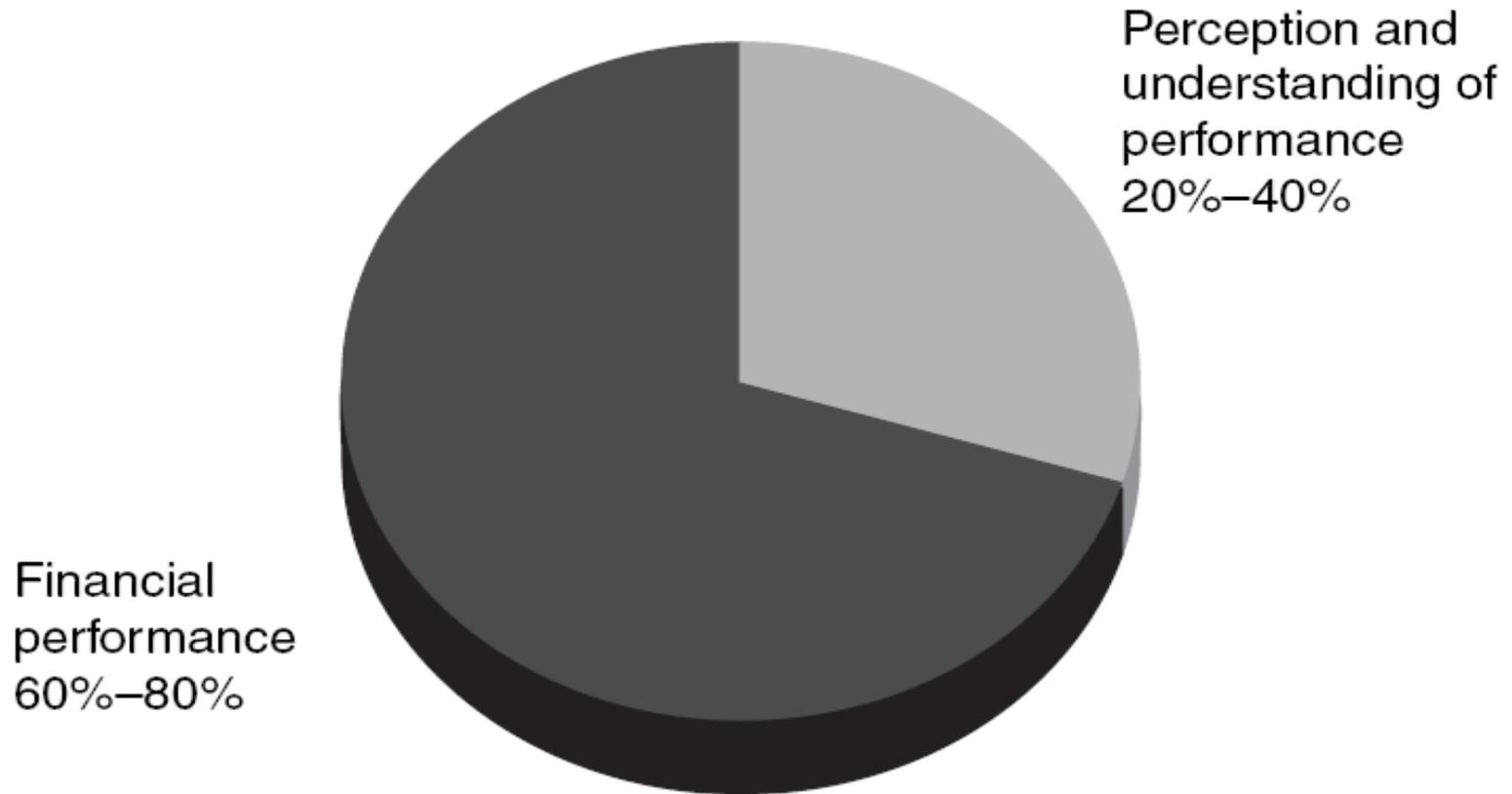
Perceptions that Rattle Us

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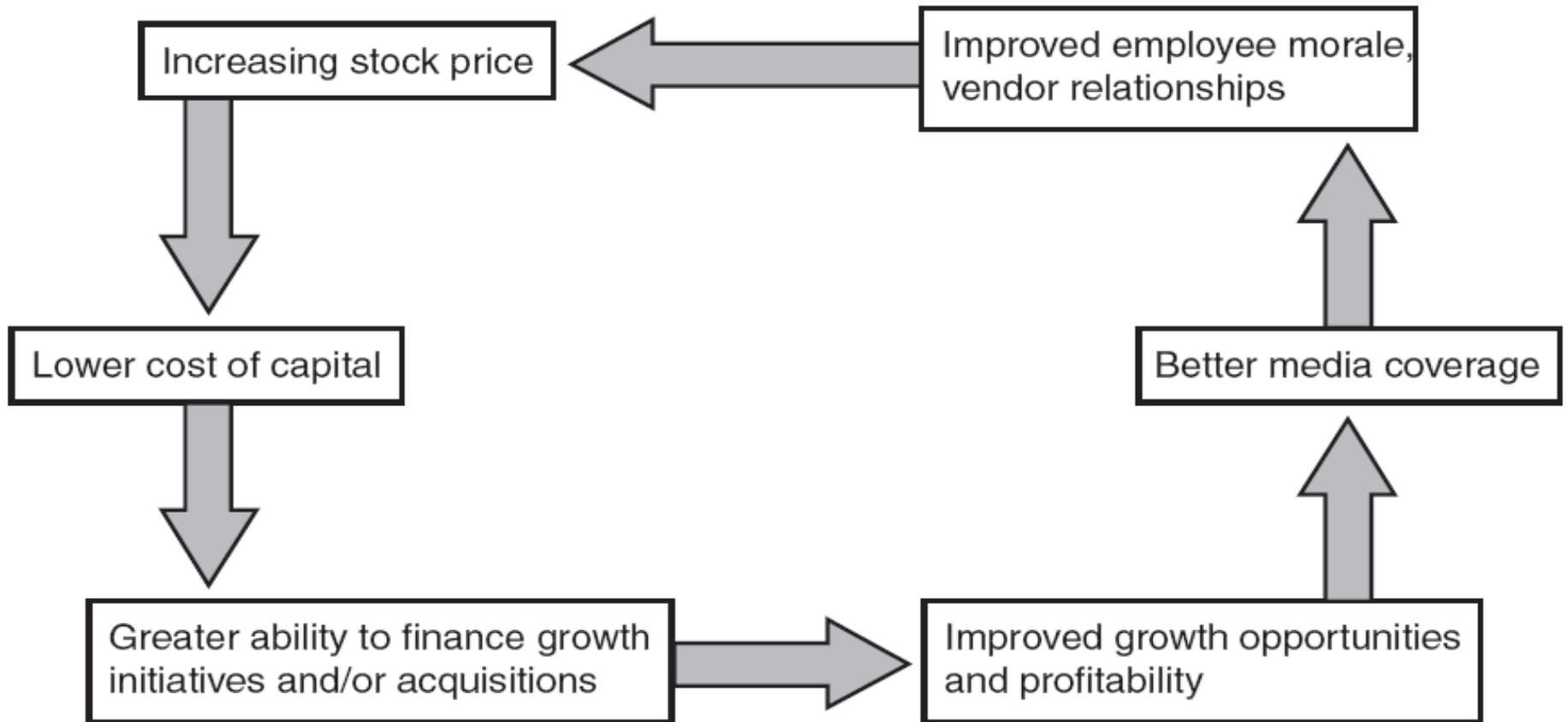


"The corporation denied any wrongdoing, but agreed to settle the allegations and pay the government 100 billion dollars."

The Equity Valuation PIE



Move towards a Premium Multiple



Shareholder Activism

- *Shareholder activism –Part of the value derived by shareholders lies in their ability to put forward their case for company change. Shareholders often focus on a company’s environmental record and its policy on executive compensation. IROs should ensure that they are aware of the agendas of any activist shareholders and advise management teams how to respond.*

Traditional IR and the need for change

- ❑ Traditional IR in Pakistan is confined to the following:
- ❑ **Annual/Quarterly Reports** = An end of the fiscal year report to investors including communciation from the CEO, text on business operations and financials with notes explaining the assumptions behind those numbers
- ❑ **Notices through the stock exchanges** = material information related to the business and its management is disseminated through the stock exchanges
- ❑ **AGM/EOGM** = AGM takes place once a year (unless the need for an EOGM) to which all shareholders are invited with management and directors present to discuss recent issues and decisions while also answering shareholders questions. Company plans and shareholder proposals are also put up to vote.

"Going beyond traditional IR"

- "We all "hear" but very few of us "listen"
- Similarly we all "talk" but very few "communicate".

Traditional IR is more about talking and what we need is "communication" with the Investor.

"Going beyond traditional IR"

- A company makes sure that a shareholders meeting notice and financial statements are sent to the investors but seldom give a thought as to whether the investor has understood anything from these financial statements or has been able to make a head or tail of the contents of the notice.
- This in turn adversely affects the perception as well as the potential feedback that the investor would have given."

Going beyond traditional IR to generate value multiples

- ❑ A steady flow of information is required to allow investors to make confident decisions. Traditional IR needs to be complemented with nonconventional modes:
- ❑ **Newsletters** = Periodic news letters to stakeholders are a good way to capture their attention and keep them informed. Key management interviews can provide stakeholders information on recent developments and initiatives
- ❑ **Fact Sheets/Books** = Providing the analyst community (sell and buy) with reams of data on the finer details of complex operations
- ❑ **Conferences** = This creates an opportunity for management to present their views on decisions while gaining exposure and setting a platform for wider stakeholder interaction

Going beyond traditional IR to generate value multiples

- ❑ **Non Deal Road Shows** = An effective way for management to tell the company's story directly to investors and discuss the financial and strategic prospects of the company. This also allows for relationship building
- ❑ **One-on-Ones** = This provides analyst, portfolio managers as well as all other stakeholders a productive way to find the answers they need while also giving management the chance to share the company's story
- ❑ **Analyst Days** (only a handful of companies in Pakistan) = Companies invite analysts to their headquarters or neutral venues to hear the story and ask questions, see the product (intangible/tangible) and meet some of the other management outside of the CEO and CFO.

Going beyond traditional IR to generate value multiples

- ❑ **Ads/Publicity** = Media sources are vital to reach a wider segment of potential investors and stakeholders. This helps build awareness and name recognition underpinning investor interest.
- ❑ **Interactive Websites** = The internet is as pervasive as the media but is much more immediate and flexible. Most websites should have specific pages where all stakeholders can connect and collect pertinent information

That was just the beginning!!!

Making a World Class IR Program - Simply sending out information facts and figures doesn't make for a world class IR Program

❑ **Stock Market Reconnaissance** = The IR rep needs to keep track of stock market dynamics and valuation drivers. IR should keep a pulse on economic developments as well as industry/company specific issues.

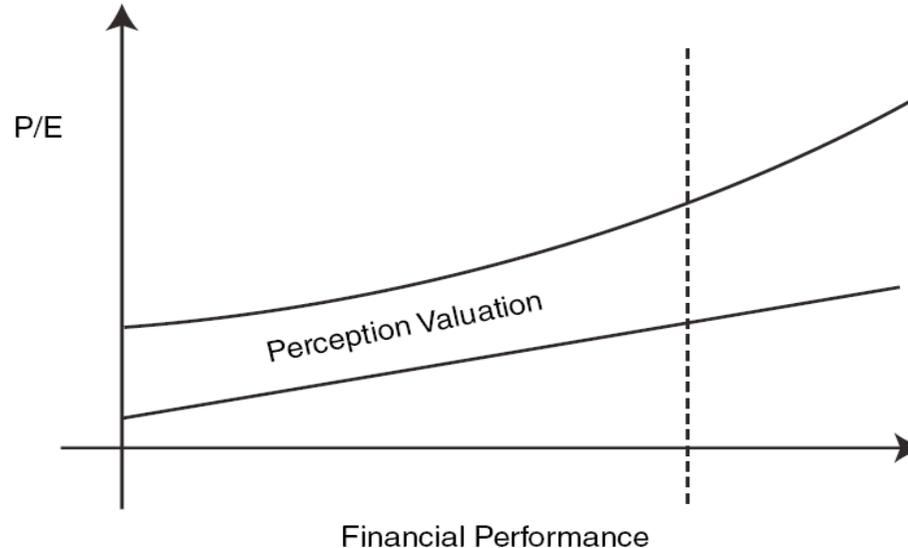
❑ **Shareholder Analysis** = Gathering Information on investors, their portfolio mix and size, assists the company in adopting a targeted approach towards investors.

❑ **Feedback** = It is important for IR to understand the market's perception before communicating vital information about the company and its plans to investors and buy/sell side analysts. This helps the company in achieving the desired results and maximizing the impact of the information on the stock price.

Revamped, Ramped Up and Redefined

- ❑ **Traditional IR is not enough** – The delivery of information as well as its packaging should be done in the context of valuations.
- ❑ IR has to operate from a capital markets perspective as well as understand the thoughts and processes of all stakeholders.

Perception Valuation



Successful IR Program

**Successful IR Programs
are designed
to accomplish
the following:**

- *A reasonable level of liquidity in its shares*
- *Easier and cheaper to access to capital in the future*
- *A fair market valuation for the company*
- *A strong and dedicated group of supporters and believers*

Measuring IR Success

- *Factors not to be overlooked would include the ‘uniqueness’ of the company’s offering, the wider economy, the management team’s track record, and the relative attraction of other investments. A good Investor Relation Officer will have a sound knowledge base of their company’s activities and be able to convey that information to the market through a range of channels.*
- *The true success of an IR program can never be precisely quantified since valuations and investor interest depend on many factors, of which, some, will be outside the influence of the company.*

Measuring IR Success

- *To set reasonable, yet specific, objectives by which the IR program can be measured is the best. These may include measurements such as the number of analysts and investing institutions visited in a year, and informed commentary and feedback from the various capital markets audiences.*

Thank You