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## New Approaches to Setting Up Meetings....

By Hank Boerner

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## New Approaches to Setting Up Meetings, and a National Perspective on Regulatory, Technological and Structural Changes in the Capital Markets in 2008

Part II of a continuing series on investor meetings and road shows

BY HANK BOERNER

About those non-deal road shows — do you view these as a welcome break from routine and an opportunity to meet new people? Or, do you see these rounds of meetings as task-filled, very long days on the road where the IRO and corporate management team members must perform perfectly, to “do their best” in front of an endless parade of investors? Whatever your view, for most IROs investor road shows continue to be an important part of your job portfolio and are still necessary events expected by investment managers — even as the structure of the capital markets and nature and makeup of the investor community changes.

Access to senior corporate executives has become more valuable than ever and institutional investors expect to have access to decision-makers. In 2006, buy-side institutions allocated more than 20 percent of sales and research commission dollars to access activities. An *Institutional Investor* magazine poll revealed that investors value access to management even more than the usual research reports, earnings estimates and stock recommendations.

Challenge for the IRO: Expanding beyond traditional methods of conducting non-deal road shows that may be becoming less effective — there’s too much demand on corporate managers’ and investors’ time, and structural marketplace changes are two reasons experts cite. Are better (new) ways emerging?

*IR Update*’s continuing series on investor meetings and interactions this month focuses on a new aspect of road shows — arranging meetings on behalf of institutional investors, not necessarily paid for by the issuer. Here we present a national perspective presented through Hanley & Associates.

One year ago (January 2007) former capital markets professionals founded New York City-based Hanley & Associates, the first nationwide *independent provider* of non-deal road shows. “Independent” because they don’t write research or have any trading operations. As a result, they claim to be able to maintain objectivity and confidentiality, and to gather greater due diligence

from institutional investors — their clients — on why the investor would like private, one-on-one meetings with a company’s management team.

Hanley & Associates partners say they offer an alternative to the traditional road show, reflecting changes taking place on Wall Street, as well as addressing important changes in the environment the street-smart IRO considers before going out on the road. *IR Update* talked with managing partner Rick Hanley, a former managing director at Deutsche Bank Securities, and director Cheryl Gedvila, CFA, who presented suggestions for IROs to help in understanding the changed environment in which today’s road shows take place.

**IR Update (IU):** How did Reg FD change the way companies communicate with the Street?

**Rick Hanley & Cheryl Gedvila:** Adopted in 2000, Reg FD sought to level the information playing field among investors by requiring that all *material* corporate information be disseminated to *all* members of the investment community *simultaneously*. This reality led investors to increasingly focus more on wanting one-on-one interactions with corporate officers in an effort to gain a deeper, differentiated understanding of companies and to experience first hand the management team’s commitment to stated plans and goals.

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**IU:** What else was going on — innovations in technology, for example?

**Hanley & Gedvila:** While Reg FD changed the *content* exchanged between the corporate community and the Street, changes in technology were dramatically altering *how* sell-side research was distributed to investors. Analyst opinions are now transmitted instantaneously via voice mail and e-mail blast systems to literally thousands of end users. This results in a commoditized research product, significantly less integral and valuable to investment decision-making.



Rick Hanley

**IU:** What about the effects of lower costs in trade execution and changes in compensation for the institutions — how does this affect analyst research?

**Hanley & Gedvila:** Trading prices have been collapsing. New York's former attorney general wrung serious changes out of leading investment banking firms in the *Global Research Settlement*. Feeling the squeeze and competitive pressures, some sell-side firms attempt to find niches in the marketplace by offering specialized products or coverage. The separation of banking and equity research continues to squeeze the pure-cash equity business. Challenges now faced by the independent research houses are underscored by the closing of Prudential Equity Group in June 2007; the firm had long been a powerhouse of the independent research model.

**IU:** Any other factors affecting the decline of research coverage for issuers?

**Hanley & Gedvila:** Not only has distribution of research changed radically, but the decline in equity platform profitability led

many brokerage and banking firms to cut their budgets and downsize research departments. This often means less experienced analysts will be covering more names than ever before. Lower profitability and the rapid growth of hedge funds led some seasoned analysts to move into more lucrative parts of the equities business. According to a study by The National Research Exchange and Capital Markets Advisory Partners, the median analyst turnover rate from 2003 to 2006 was 52 percent. This change in the traditional research model made it more imperative for buy-side institutions to conduct their own due diligence on companies through one-on-one interviews with management.

**IU:** What about the influence of Hedge Funds? More challenges for IROs?

**Hanley & Gedvila:** Bear markets in 2001-2003 spurred the emergence of over 3,000+ hedge fund managers, who today manage almost 9,000 funds and funds of funds. Navigating through this sea of hedge funds and understanding the nuances in their styles presented significant new challenges for the IRO.

**IU:** And the effects of hedge funds on traditional investment banks/brokerages?

**Hanley & Gedvila:** Significantly lower commissions forced sell-side firms to re-evaluate where profitability may be found, even if marginal. In response to this new environment, investment banks and their equity platforms began to *tier* their accounts, prioritizing institutions that either have the greatest trading volumes — whether these have the largest assets under management, or represent smaller accounts with extremely high turnover. The so-called “platinum list” clients receive premium levels of service, including access to corporate management

and research. This trend also presents real challenge for IROs.

For example, institutional “focus list” clients may receive full analyst research reports, while lower priority clients may get bullet-pointed highlights. Priority clients may be offered one-on-one meetings with your company's management team, while other clients are allocated to group lunches. This new environment makes it significantly harder for issuers to reach potential incremental shareholders through the traditional Wall Street venues. For smaller companies, getting one more analyst to begin coverage used to mean expanded distribution, but in the new environment, this is not necessarily true. At the same time, larger companies are often faced with the challenge of meeting the expectations of as many as 20+ analysts, and while managers may be eager to take their teams on the road, in reality they can only visit a small number of institutions — and these “priority accounts” would look very similar for most investment banks.

Decimalization of share pricing led banks to the realization that they can be more profitable trading for their own accounts rather than executing trades on behalf of others. For an institutional investor, this new environment poses the obvious potential for conflicts of interest between [their own in-house] investment managers and [their] sell-side analysts that not only may be in competition for information flow taking place during one-on-one meetings, but also have traders back home becoming fully aware of where the clients' interests lie.

## Succeeding in the New Environment

**IU:** All these changes in the capital markets — what kind of direct effects on the average IRO?

**Hanley & Gedvila:** The reality for IROs is that the demands on their time and their managements' time has never been greater. In a recent study conducted by Hanley & Associates, of the 130+ participating companies, corporations reported devoting 37 days in face-to-face meetings with investors in the past year. This included one-on-one meetings, field trips, conferences, and head-quarter visits. This also included 15 days of "C suite" executive marketing, and several of these events involved more than one executive. This level of personal interaction subtracts from time for operations, and one way that IROs are responding is by spending more time on the road by themselves meeting with investors.

**IU:** OK, so we are all stressed out because of so much change — how do IROs make their meetings more efficient?

**Hanley & Gedvila:** As all of the changes in the capital markets occur, it becomes clear to the IRO that there is really nothing efficient about repeatedly seeing the same short list of clients. The *tiering* of accounts by banks/brokers makes it increasingly difficult for companies to broaden their investor base. So, while fostering relationships with sell-side analysts is still important for the IRO, there are various ways to accomplish this and IR departments take an increasingly cautious approach when it comes to road show strategies. Some are now opting for the do-it-yourself (DIY) approach in planning non-deal road shows.

In 2006, roughly 40 percent of non-deal road shows were organized *internally* by IROs — up from 33 percent just two years earlier. While this approach has definite appeal, investor relations department

budgets are generally constrained and this approach may strain an already limited number of resources.

**IU:** You stress an important point for IROs to consider about "shared accountability."

**Hanley & Gedvila:** Yes, another major shift we see is this: The changing landscape for non-deal road shows calls for greater *accountability* on the part of "meeting takers" as well. Nearly every IRO seems to have a story about taking their CEO or CFO on the road ending up in a meeting where the investor comes to the table less than optimally prepared — if at all prepared! Perhaps the meeting starts with the investor saying, "We owned you a couple years back, can you update me on what you've been doing since then?" Or the pervasive question actually

**IMPORTANT TREND: THE PROP DESK HAS ALSO COME INTO THE SPOTLIGHT, INCREASING THE POTENTIAL FOR CONFLICTS OF INTEREST BETWEEN INVESTORS AND BANKS.**

posed: "What keeps you up at night?" Just what your senior manager was hoping they'd ask! Perhaps these experiences are not as frequent as in the past, but they are also not at all uncommon for most IROs. These are the result of those few investors that get so many meetings that they have come to take the privilege of your management's time for granted.

We believe that this new environment for non-deal road shows also calls for a greater degree of *accountability* on the part of meeting takers. IROs should expect their one-on-one meeting takers to come to the table fully engaged, well-prepared, and with questions in hand. Meeting sponsors should

be respectful of your management team's time and realize that shareholder value is not only created through meeting, but through making meetings more productive for all parties and enabling managements to get back to running their businesses in a more timely fashion.



Cheryl Gedvila

We built the Hanley & Associates targeting model in response to the changing landscape for non-deal road shows and it is designed to empower both company management and investors in the meeting process. It is based in part on experience gained in coordinating almost 600 corporate meetings over the past three years, involving more than 300 U.S. companies. Through a unique, proprietary model, we work to surface the *real demand* for the corporate management team's precious time away from the office. **IRU**

**Editor's Note:** Rick Hanley and Cheryl Gedvila told *IR Update* the resulting "book of demand" is then provided to the company, to allocate meetings accordingly, and to optimize the time of both companies and investors. The important difference in this approach: no charge to companies — the institutions provide financial support for the resulting meetings.

For more about how the Hanley & Associates LLC's targeting model works, visit the Web site at [www.hanleyassociatesllc.com](http://www.hanleyassociatesllc.com) or telephone Rick Hanley or Cheryl Gedvila in New York City at: 212-201-1200.