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IR Basics: Once Upon a Time

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If you read my biography at the bottom of the page, you'll find a reference to my "eclectic background". It includes over two decades working as a producer/director/writer in the film and television business, as well as a stint as managing editor of a publishing company. When I meet associates from my previous careers, they are often surprised – or rather shocked – to find that I'm now dressed in a business suit, roaming the financial corridors at King and Bay, doing something called "investor relations".

When I launch into an explanation of what I do, they cannot grasp any connection between my old vocations and my current one. My usual reply is, "I help publicly traded companies tell their story to the financial community. Investor relations, just like filmmaking or publishing, boils down to one fundamental skill – storytelling."

It's a simplistic explanation, but not too far from the truth. This month we'll take a look at some textbook explanations of investor relations as well as some practical ones.

I often recommend the Canadian Investor Relations Institute as a source for information on IR, so its definition of investor relations is a good place to start:

"A corporate activity, combining the disciplines of finance, marketing and communications, which provides present and potential investors with an accurate portrayal of a company's performance and prospects so that they can make properly informed investment decisions. Effective investor relations should have a positive effect on the



market's assessment of a company's value relative to that of the overall market, thereby minimizing the company's cost of capital, and should serve as a conduit for providing market intelligence to corporate management."

From this definition you can see why IR is often called "financial marketing." Every company essentially has two products. The first product is whatever it is the company sells or does to produce revenue – be it the manufacture of grommets, software, or helicopters, or providing services such as advertising, consulting, or accounting. The second product is its stock. Each is equally important to the long-term health and growth of the company. The public relations/marketing department markets the first product. The IR department markets the second.

Another phrase that's often used by IR professionals is "managing shareholder expectations". While the objective of all companies should be to maximize shareholder value, that valuation must be sustainable over time – thus the need to manage expectations. It's the guiding principle behind revenue projections, earnings warnings, and forward strategy statements.

In today's environment, with companies bending over backward to avoid selective disclosure, management is increasingly being called on to provide the kind of "guidance" that used to be the sole domain of the analyst. But, as an IR consultant, what I often tell clients is, "Under promise and over perform." Do that and the Street will reward you.

THE INVESTOR RELATIONS CYCLE



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The process of marketing a company to the Street is cyclical in concept. The investor relations officer starts by defining the company's story. Sometimes this is fairly simple – more often it's complicated. The IRO's job is to make the complicated corporate story simple – to boil it down to its bare essentials. This process includes defining the three or four key messages that every piece of IR material should contain.

Once the story and messaging have been determined, they must be communicated to investors – both existing and potential. IROs use the "IR Tool Kit": press releases, websites, investor luncheons, one-on-ones, multimedia presentations, fact sheets, teleconferences, webcasting, and annual reports. Each of these tools allows the IRO to reach different segments of the investment community. For instance, webcasting reaches the retail investor directly, while one-on-ones are usually aimed at the buy-side or institutional investor.

The object, in the jargon of the Street, is to get your company on the "radar screens" of the investment community. Audiences include sell-side analysts, retail brokers, buy-side analysts, fund managers, portfolio managers, individual investors, and the financial media.

At the same time as the IRO and management are telling their story to the Street, they are gathering "market intelligence". This is a key operation in IR, because there is *always* a difference between what a company thinks their story is and what the Street perceives it to be. It's a "perception gap" that the IRO seeks to narrow as much as possible.

Let's look at an example. The investment dealer that underwrote your last offering arranges a series of one-on-ones with some of the institutional investors that now hold your stock. You carefully prepare a 20-slide presentation with an accompanying script. You bring an investor kit with a printout of the presentation. You rehearse the executive(s), including a rigorous Q&A.

But after the meetings are over, you do a series of follow-up phone calls with the participants and discover they didn't understand how the integration of your latest acquisition could possibly generate the kind of cost savings you indicated – a classic perception gap. This is a simple one to address – an additional slide could outline the operational efficiencies and how they will benefit the bottom line.

In adjusting the presentation, you modify the story in response to market intelligence. The next time the presentation is used, this particular gap will have been filled. Of course, other gaps will appear as the company's story changes, new trends hit the sector, or there's a downturn that affects a major customer. The IR cycle of telling and adjusting the story to reflect market intelligence is a constant work in progress.

Many companies do a full-scale "perception audit" once a year. Usually these in-depth surveys are undertaken by third-party consultants. They poll a cross-section of existing institutional shareholders and analysts who cover the stock, as well as buy-siders and sell-siders who hold or cover competitors. The survey responses are anonymous – thus the need for a third party to conduct the audit. The anonymity allows respondents to say things in private that they wouldn't normally reveal directly to a company. The audit is then used as the basis for crafting the IR

story and designing the IR implementation plan.

In addition, there are ample opportunities for gathering market intelligence throughout the year. Every meeting, every luncheon, every phone call from a retail investor is an opportunity to obtain insight and information on how investors regard your company. All this information needs to be documented, analyzed, and eventually presented to management. At times it will be used to fill the gaps in the IR story, and at other times the insights will guide management in making changes to the operations of the company, which will then be reflected in a new version of the story. Gathering market intelligence is as important a part of the IR cycle as telling the story.

When doing a pitch, filmmakers have to be prepared to describe a film in a single sentence – 20 words or less. It's good discipline and a useful starting point for an investor relations story. If you can't articulate the essence of a company in 20 words, then maybe you don't really understand the story. And if you don't, how will you ever get past, "Once upon a time ..."



Paul Caulfield is a communications consultant with an eclectic background as an award-winning television producer, a managing editor, and a writer. He was the author of the groundbreaking report *Under Construction: A Survey of Canada's Information Highway* (1995). He currently provides freelance consulting services through his company, [Mirus Communications Inc.](#)

As senior investor relations consultant, Paul is a hands-on practitioner producing corporate speeches, press releases, IR websites, annual reports, and investor presentations. He has provided financial communications and strategic planning to a number of small- and large-cap Canadian companies.

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