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## The Key to Targeting Investors:

### Understanding Your Shareholders

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Paul Caulfield  
[Email](#)  
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In last month's column, I discussed the various ways that a publicly held company could go about identifying their shareholder base. But Shareholder ID is just the first step in a larger process – targeting investors.

The list of portfolio managers and institutional investors you've developed through your ID program is just that – a list of names, addresses and phone numbers. Yes, it also includes how much stock each investor owns, but that is not crucial information. What is crucial, and what is not self-evident from the list is, "Why?" Why do these particular investors hold your particular stock? If you can understand that, then you can take a giant step in targeting new investors who have similar needs or investment strategies. And also identify existing investors who might potentially buy more stock.

First, some investor definitions. There are essentially six investor styles or profiles:

- **Value:** investors looking for out-of-favour companies with undervalued assets and low price-to-earnings ratios
- **Growth:** these investors are willing to pay more for above-average earnings growth and accept a higher level of risk
- **GARP:** "growth at reasonable price" investors are somewhere in the middle
- **Yield:** these are "income" investors, looking for increases in dividends rather than equity growth

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- **Index:** these are the so-called "semi-passive" investors who buy indexed mutual funds
- **Momentum:** investors looking for volatility, they're focused on short-term gains and are in and out of a stock very quickly

In its simplest terms, "targeting" means matching the investment style to the stock. For instance, if your stock is "old economy" with slow growth but a high dividend yield, it's no use going to see the fund manager at XYZ Canadian Growth Fund. Likewise, a technology company, which is pouring all its earnings back into production, or has an aggressive M&A strategy, need not go knocking on the XYZ Income Fund door.

Targeting is also important because it maximizes the use of senior management. Most corporate executives would rather be managing their business than doing a presentation to a fund manager or buy-side analyst. Putting them in front of a selected, pre-qualified audience ensures optimum use of management resources. Your shareholder ID information can also help you prioritize – making sure that the most senior executives deal on a regular basis with the largest institutions. Also, providing senior management with intelligence about the institutions they are meeting is essential. It speaks to a key rule in preparing any presentation – know your audience.

So, the first step is to analyze the investment profile of the investors who hold your stock. Theoretically, they have bought your company because they think that your corporate strategy dovetails with their investment strategy. Fund guides, financial journals, online database services, or even SEDAR filings are all sources of institutional profiles.

Here's the kind of information that I normally track when targeting for clients:

- **Fund Manager:** name, contact information, years with the fund, past history, other funds they manage, personal style
- **Fund style:** value, growth, GARP, income, etc.
- **Assets:** how much under management – the larger the fund, the more likely they are to stick to blue chips – the smaller the fund, the more likely they'll be interested in small-cap
- **Minimum holding:** if you're a \$2.50 stock with a market cap of \$100 million and the minimum a fund will hold is \$10,000,000, they're not going to buy your stock, because they probably don't want to hold more than 9.9% and there isn't enough liquidity for them to get out when and if they want to
- **Returns:** average return over one year, three years, five

years, or ten years

- **Capitalization:** micro-, small-, mid-, large-cap
- **Coverage:** Canadian, North American, global
- **Focus:** technology, financial services, industrial products, oil & gas, utilities, consumer goods, real estate, internet
- **Portfolio balance:** equities, fixed-income, futures, cash
- **Valuation models:** PE, EPS, dividend yield
- **Peer group holdings:** what other stocks from your peer group are in the portfolio?

Once you have accumulated this information about the funds that hold your stock, you can start looking for other funds with similar profiles. If you're a micro- or small-cap stock with little institutional following, it is, of course, difficult to accomplish this step. Instead, you need to look for funds that hold your "peer group."

Targeting by peer group is a bit of a red herring. Your "peer group" is not necessarily your direct competitors. Peer groups – in targeting terms – can be defined a number of different ways: by sector, by financial profile, by size, by geographic region.

Targeting by financial profiling is often more successful than straight sector targeting. Using this method, you look for companies with similar characteristics to your own. A particular fund may look at companies only in a certain PE (price to earnings ratio) range, or with a minimum dividend yield. They may only invest in companies with tightly defined revenue growth or asset base. If you're able to determine exactly what those parameters are within a fund, and your company matches the parameters, you stand a good chance of at least getting in to tell your story.

At some point, every public company needs to be proactive in meeting the buy-side. Relying on bankers and sell-side analysts to set up meetings with the buy-side is not necessarily in your best interest. The sell-side is going to put you in front of their best clients – the ones that buy and sell stocks on a regular basis. Turnover may be a good thing for commissioned salesmen, but most companies are interested in finding long-term investors who will get in and out in an orderly fashion, thus minimizing volatility.

As I pointed out last month, there are over 4,400 funds in Canada. Finding the right ones for your stock is a challenge. Identifying potential new investors, setting up the meetings, preparing the presentations, and delivering the story is all part of the IR cycle. Doing it successfully leads to the IRO's (Investor Relations Officer) ultimate goal – enhancing shareholder value.



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**P**aul 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 ground-breaking report **Under Construction: A Survey of Canada's Information Highway** (1995). He currently provides freelance consulting services through his company, [Mirus Communications Inc.](#)

As a 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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