

IR Best Practice: Get to know the Buy-Side

By Sheryl Joyce, Q4 Web Systems

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Recently, I responded to a discussion on LinkedIn entitled **“Required skill sets for IR professionals”**. The person who started the discussion was a former portfolio manager and head of research who now has his own consulting business that is putting together a training course for IR professionals. He asked “in addition to how the buy-side analyzes company financial statements and announcements, values a company’s shares and assesses corporate strategy what else would an IR professional need when dealing with the buy-side?”

Dealing with the buy-side has been pushed to the top of the priority list for IROs – especially since there has been a slow decline in the number of sell-side analysts over the past few years. This coupled with the spotlight it has been given at this year's NIRI conference with a panel discussion entitled "How the Buy and Sell Side Trade your Stocks Today" (and the fact that there was standing room only) along with the discussion I outlined above has prompted me to share some ideas for IROs to consider when dealing with the buy-side.

THE IMPORTANCE OF IR

The IRO is the liaison between management and the investment community so it is essential a rapport is established early on. One way to do this is to become a credible source of information which means being well versed in the company and having the ability to answer their questions. Being a source of valuable information is very important as a recent study of the buy-side by Rival Research suggested, IR plays a role in their investment decisions, as they "uncovered that **portfolio managers and buy-side analysts attribute a premium of 10% of a company's valuation to good investor communications and a discount of 15% to bad investor communications**".

The research previously cited proves that how well the company conveys itself to the investment community is taken into consideration and if an IRO can prove early on that they

are capable of answering questions, they will potentially be the first person that the portfolio manager calls for information.

Keep in mind that, while it is important to be able to adequately answer questions, these conversations don't have to be one-sided, and understanding how they make decisions to buy or sell is crucial to IR messaging and objectives. So go ahead and ask specific questions.

BUYING

Idea generation:

- What's the most successful way to get you to look at a company?
- How reliant are you on sell-side research and sell-side ideas? Do sell-side analysts or equity sales play a large role in idea generation?
- How do you decide which analysts you think have the most credibility? (external ratings, internal research team evaluations, track record, etc)

Criteria (fundamentals, metrics, model, sector, management)

- What is your investment process?
- What is the first thing you look at? Fundamentals, management?
- Are there key metrics that you follow? What are they and why?
- What is the proportion of your holdings in large-cap, mid-cap and small-cap?
- Do you meet management of every company in your

portfolio? How high do you rank access to management in your investing process? When you meet with management, do you strongly prefer one-on-one to group meetings? Does it depend whether the stock is one of your core holdings?

SELLING

Triggers

- What are the key triggers that lead you to a decision to sell?
- What is your process internally for selling? Is it the same as the buy process, does it need to go to a committee?

GENERAL

- What is the average time you hold a stock?
- Does the quality of IR play a role in your investment decisions?
- What are your expectations from investor relations and what have you found to be world-class IR practices?
- Do you go to dealer-hosted conferences and take meetings there?
- Do you prefer to be contacted by the company directly to offer a meeting, or are you just as happy to have a dealer set it up and host?
- Do you find investor days valuable, and what do you expect from them?
- Do you encourage or want issuers to provide earnings guidance? If not, any other type of guidance, given the current environment for extreme volatility if targets are missed, even by small amounts?
- Has the current economic environment changed your

approach to investing; are you analyzing different fundamentals e.g. are you paying more attention to the balance sheet now than you did before?

Traditional Media and Social Media

- Do you talk to reporters or go on financial shows to talk about your thoughts on a company or investment ideas? Do you see any value in that?
- Do you ever check out chat rooms about companies?
- Does social media like blogs or Twitter in any way affect how you get or share information professionally?
- Do any of the companies you follow use Twitter?
- Do you read financial blogs like SeekingAlpha.com or follow investors on social networks?

I would like to thank some people (who asked not to be named) from the Ontario Chapter of CIRI who helped me compile these ideas. We recognize that there may be some additional areas to be included, but wanted to keep it to buying and selling.

As the number of sell-side analysts continues to decrease, interacting more with the buy-side has been pushed to the top of the priority list for IROs. Successfully communicating a company's story is highly valued in their eyes. Becoming a credible source of information and establishing a rapport will foster two-way communication that will benefit both parties – PM's will be more apt to call if they know they will get valuable information by calling the company directly and IR

professionals will be given the opportunity to gain an understanding of how and why decisions are made to buy or sell which is crucial to IR messaging and objectives.

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About Sheryl Joyce

Sheryl is the Director of Marketing and Communications at Q4 Web Systems (Toronto, Canada) and is responsible for marketing and communications initiatives such as blogging, webinars, events and best practices. Sheryl has twelve years experience in the capital markets industry, nine of those specializing in investor relations. Sheryl brings years of experience investor relations and has conducted countless IR website audits based on “best practices” and industry trends along with the management of press releases, annual report content, earnings conference call and investor presentation scripts, annual meeting speeches, IR fact sheets and IR website content. She also maintains well-established relationships with sell-side analysts, institutional investors, investment bankers and transfer agents.

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