



The Power of the Letter

While eulogies have been written for the annual report, research continues to show that this investor communications tool is very much alive and well. According to a recent study of buy-side investors by Rivel Research:

- 70 percent think the annual report is useful when making the decision to buy a stock
- 69 percent think the annual report is useful for helping them follow a stock in their portfolio

Not surprisingly, research shows that the Letter to Shareholders is still the most-read portion of the annual report. Not only does it allow the CEO to put the previous year's performance into strategic perspective, it affords him/her the opportunity to establish expectations and metrics for the organization going forward. And, since more investors will read this piece than will meet with the CEO, it is critical that this section of the annual report be crafted carefully to maximize its potential impact.

Getting Started

Before you put "pen to paper," be sure to:

- Review all disclosures and conference call transcripts from the past year
- Review recent non-deal road show and industry conference presentations, including any feedback from investors from those events
- Review the most recent investor perception study findings (if still relevant)
- Review current corporate marketing materials and recently added website content
- Discuss forward-looking "investor" messages and metrics with the CEO, CFO and other relevant senior leaders
- Discuss the company's governance profile as it relates to current proxy rating agency recommendations, as well as any proxy proposals, with the general counsel and corporate secretary
- Build upon the "uniqueness" of the CEO's personal style and voice – he/she personifies the company's brand and investor identity, and this intangible asset makes a real difference in the valuation
- Develop an expanded content outline for input and approval by the CEO before you start writing

The Dos and Don'ts of the Annual Letter to Shareholders

As you develop the letter, you'll want to be aware of these accepted best practices:

Do

- Focus on the underlying question on every investor's mind: "Why is now the right time to have a position in this company's equity?"
- Establish realistic expectations for the company
- Consider expanding the parameters of the letter to address such increasingly important topics as corporate social responsibility, meaningful new product launches or an update on governance-related matters
- Keep all constituents in mind – from long-time investors to prospective employees
- Make a connection between the letter and the theme of the annual report

The Power of the Letter – continued

Don't

- Avoid addressing the “elephant(s) in the room”
- Presume readers have been following your company closely or for long
- Use industry jargon
- Overlook the Web component or alternative uses for content

Regardless of whether you produce a glossy, typeset report, a 10-K “wrap” or a Web-based platform, your company’s annual report will represent your management team and present your company’s value proposition for the next 12 months. A thoughtful and thought-provoking Letter to Shareholders will go a long way in determining its effectiveness.

If you would like to discuss your company’s messaging to investors, please contact Rob Berick at 216-241-4611 or rberick@dix-eaton.com.