

# IRupdate

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## IR IN MOTION ... FOR THE LONG TERM

NIRI 2015 delivers excellent content and networking opportunities at its Annual Conference.

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Roads Less Traveled

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With Investors



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Founded in 1969, the National Investor Relations Institute (www.niri.org) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysis, and other financial community constituents. NIRI is the largest professional investor relations association in the world, with more than 3,300 members representing over 1,600 publicly held companies and \$9 trillion in stock market capitalization. NIRI is dedicated to advancing the practice of investor relations and the professional competency and stature of its members.

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## IR in Motion . . . for the Long Term

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**By Ted Allen**

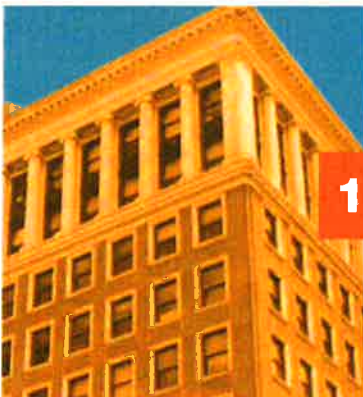


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# TWO SHAREHOLDER ROADS LESS TRAVELED

IROs' traditional perception of the ideal shareholder base may need to change to incorporate hedge funds and retail investors.

By Apryl Motley



**T**wo roads diverged in a wood, and I – I took the one less traveled by, and that has made all the difference.” Like the narrator in Robert Frost’s iconic poem “The Road Not Taken,” IROs find themselves at a crossroads as some begin to rethink long-held beliefs about which kinds of investors make up a company’s ideal shareholder base.

Chris Evenden, vice president, investor relations at Electronic Arts Inc., for example, was interested in testing the conventional wisdom that IROs should be primarily targeting long-only mutual funds. “Everyone tells you to focus on long-only investors,” Evenden says. “I wanted to explore and test that hypothesis.”

So last fall, in his role as vice president of programs for NIRI Silicon Valley, Evenden moderated a panel that considered the question, “What Is an Ideal Shareholder Base?” For many companies, the answer has been the same for quite some time: long-only holders minus hedge funds with less emphasis on retail investors.

However, Crystal Shen, who also participated on the panel, says, “When we’re talking about hedge funds, it’s important for IROs to keep an open mind rather than having 100 percent policy against talking with them.”

Shen is senior vice president, U.S. Technology, Media & Telecommunications and Services Corporate Access for Jefferies LLC. In this role, there’s quite a bit of “matchmaking” involved as she works with multiple clients at a time, institutional investors, buy-side, and IROs. By not being open to hedge funds as investors, she says IROs may be “closing themselves out of some very valuable conversations.”

Ken Zak, director of corporate relations for BetterInvesting and also a panelist, urges the same consideration for retail investors when IROs fall back on the traditional view that they are time-consuming. “IROs think they

have to spend a lot of time with them,” Zak said, “but retail investors realize that management’s time to spend with them is limited.”

BetterInvesting educates its members, both individuals and investment clubs, about how to do their own research to make informed decisions about where to invest. “They are highly educated,” Zak said. “They understand the C-suite’s role and we would not want to take them away from that.”

The ongoing dialogue about IROs rethinking their approach to building the ideal shareholder base continues here as these industry observers share their insights about working with hedge funds and retail investors – two groups that may still be absent from the shareholder portfolios of many companies.

## Handling Hedge Funds

In Evenden’s experience all hedge funds are not created equal, so it’s important that IROs don’t see them as a “monolithic bloc.” Working with them will require additional research on the IRO’s part, but he believes it’s worth the time and effort.

“My interaction with hedge funds has shown their diversity,” he says. “There may be some funds that are traded daily and others that are essentially long only.”

“The perception of high turnover among hedge funds can be misunderstood,” Shen confirms. “Often the increments they are trading in are smaller lots around their overall position with the company.”

“It may seem like they are trading more rapidly or frequently,” she continued, “but not on the massive level that IROs might think.”

So how do IROs go about identifying those hedge funds that might be good investors? “I go at least one layer deeper in my research when I look at hedge funds,” Evenden says. “You have to look at the fund level and drill down.”

Both he and Shen indicated that getting a feel for the size and turnover of a hedge

fund is a good initial step. However, gaining a more sophisticated understanding of the fund requires the personal touch.

“Some IROs have started taking meetings with hedge funds and have gotten valuable insights while starting to build positive relationships,” Shen said. “They have basically learned by opening themselves up to new experiences.”

Evenden is in that group. “You actually have to speak to them to get a sense of their trading philosophies,” he said. “Once you determine the best people to speak to at the funds, they can be a valuable resource as you develop your story and message for the rest of the Street because they ask very detailed and in-depth questions.”

If IROs have concerns about a specific fund shorting their companies’ stock, that’s all the more reason to have a meeting. “If you’re not seeing a hedge fund because you’re afraid they are going to short your stock, the IRO, not the CEO, should meet with the fund to have a conversation,” Shen says.

“It might be worthwhile to have an IRO-only road show visiting a secondary market,” she continues. “It’s a fact-finding mission for expanding relationships and getting to know new investors. It helps IROs educate themselves more about the market and the overall landscape of available investors.”

“The onus is on IROs to educate themselves about hedge funds so that they have the background when suggesting that their companies meet with them,” Evenden agrees.

Even so, Shen says “there are instances where it makes sense for the CEO to take the meeting. Some hedge funds behave more like traditional institutional investors.”

“For larger hedge funds, they have larger concentrated stakes to take to move the needle,” she continues. “They need to hang onto stock longer their profits over the long term.”

However, according to Evenden, “CEOs and CFOs hear the H-word, and they recoil.



## Hedge Funds: A Solution for Small Caps?

The decision to work more closely with hedge funds will vary based on the company's profile. For her part, Crystal Shen, senior vice president, U.S. Technology, Media & Telecommunication and Services Corporate Access for Jefferies LLC, thinks they definitely represent an opportunity for small caps in terms of diversifying their stock and building liquidity.

"Small caps seek to diversify their shareholder bases, but larger institutions may not be able to look at their stock," she explains. "That's when it may make sense for them to build relationships with hedge funds, but small caps might not think hedge funds are large enough or worth their time."

By the same token, to attract larger investors, "they need to get their story out there in front of investors, and working with hedge funds can be the starting point in reaching their long-term goal of meeting with larger investors," Shen says.

"The hedge fund community can provide a lot of liquidity for small caps," she continues, "and the long-term shareholder base needs liquidity before they can even look at your stock."

They don't want to meet with hedge funds, so you're missing out if you don't."

"You're setting yourself up for reduced demand," he continues. "If you believe your stock is a good investment, then you are limiting the pool of buyers by not speaking to hedge funds."

### Reconsidering Retail

The same might be said of some companies' reluctance to engage with retail investors. "All IR teams should be looking for quality investors," Zak says, noting that retail investors who are members of BetterInvesting "are interested in finding good quality growth companies to invest in for the long term. They are very open and receptive to IROs. They are not looking for senior management to hold their hands."

"Some companies don't use their IR departments as much as they could," he continues. "They don't always have the personnel, but it's worth their time to get in front of high-quality retail investors to show that they have an interest and desire in having them as investors."

To that end, Zak emphasizes that there are efficient ways to get in front of retail investors. "They don't try to consume man-

agement's time with questions," he says.

"Instead, most feel comfortable using company websites that provide clear and concise messages that individuals and institutions can understand."

Kris Wenker, senior vice president, investor relations for General Mills Inc., concurs. "The retail audience doesn't want to see the CEO or CFO," she says. "That hasn't been a demand from them. This is an IR time decision and not a senior management decision."

Wenker also acknowledges that engaging retail investors does create phone traffic and says that IROs should "be prepared to devote staff time and resources to answering individual questions." General Mills launched a direct stock purchase plan in 2008, and individual investors make up 30 percent of its shareholder base.

From Zak's perspective, in addition to not taxing the C-suite's time, producing materials electronically has removed another barrier to companies engaging with retail investors. "It used to be more costly because of producing printed materials," Zak says. "Now everything is produced electronically and available through websites, which aren't just for institutions; individuals use them too."

General Mills, which has partnered with BetterInvesting by leveraging its regional and national conferences, definitely had its retail investors in mind when designing the company's investor website and blog. "Our website is set up for individual investors," says Penny Leporte, director, investor relations. "The graphics and language appeal to an individual who might not have in depth knowledge of the industry," she continues. "Our blog is similar in tone. It highlights what's going on in the company and features financially oriented posts as well."


Wenker says, "both the blog and website are great tools for reaching out to retail investors. Determining how to take advantage of cost effective means to reach retail investors is essential."

Another strategy that Leporte and Wenker use is partnering with an institution to host a telephone Q&A session with the company's CEO that will be broadcast through a larger brokerage network," which Leporte says, is "a good way to reach a broader audience."

In regards to audience, working with retail investors often means appealing to them as consumers, too. "Some of our messaging has to address both investor and consumer perspectives," Leporte notes. "We're attractive to retail investors because we've paid dividends for 116 years, and they know our products. They approach us from both angles."

In Zak's experience, "individual investors, for most companies, are also their consumers. They embrace the companies' products, as well as investing."

"Companies may think they aren't reaching out to retail investors, but they are," he says.

"Do they need to be 50 percent of the shareholder makeup? No. Could they be 5 or 10 or 20 percent? Yes." 

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