



Special Report: IROs on buy-side communications

This special report was conducted with feedback from clients of Ipreo's Global Markets Intelligence program

Observations

After a bruising 2008, the words “Happy New Year” have never sounded so good. Given the dramatic performance in the global equity, debt, credit, and commodity markets in 2008, Ipreo thought it was a good time to garner feedback from our clients as to how the upheaval in 2008 is impacting communication to and from the buy-side.

2008 was unique in that few types of money managers were spared. Headlines blared about the poor performance and loss of assets from the full spectrum of investors, including some of the world’s most prominent hedge funds (e.g. Citadel, Ospraie) as well as traditional, long-only, value investors (e.g. Brandes, Dodge & Cox).

We wanted to hear from our clients as to if and how this historically poor performance is impacting the overall psyche of the buy-side and how it is affecting communications with the group. We spoke to more than 20 clients from various sectors. Below is a summary of the common themes that came from these discussions and how Ipreo’s clients have altered their communication strategy with investment managers.

- 1. The buy-side’s appetite for meetings with companies has not abated.** In fact, with just a few exceptions our clients feel that meetings and meeting requests from the buy-side have gone up, particularly since the end of October when the markets calmed (in relative terms, of course). For clients that met with investors on non-deal roadshows, filling up a schedule of one-on-one meetings or group meetings was a relatively easy process, regardless of their sector. A few of our financial sector clients indicated that the number of analysts and portfolio managers that attended one-on-one meetings was abnormally high. It stands to reason that given the outsized impact financials have had on the overall market, more buy-side staff would be interested to sit in on these meetings.
- 2. Incoming phone calls are down.** Although investor meetings have not been impacted, clients are reporting lower incoming call volumes from the buy-side. We believe there are three primary reasons for the lower incoming call volume: First, the buy-side is currently in a defensive mode and initial outreach to companies that are prospective investment opportunities has subsided; second, the buy-side’s interest level in getting a read on Q4 performance has declined significantly relative to its need to support and communicate with its own client base; and third, hedge funds, the source of many inbound calls, have been negatively impacted, more so than any other group on the buy-side, and this has resulted in a hedge fund retrenchment.
- 3. Cash is king.** In speaking with our clients there was nothing that came through more loud and clear than the buy-side’s near singular focus on the balance sheet. Nearly all of our responding clients report that the quality and risks of the balance sheet have dominated conversation with the buy-side like never before. The most common queries focused on cash flow generation, debt servicing and debt covenants, credit facilities, pension fund obligations, and safety of the dividend.
- 4. “So, what’s your doomsday scenario?”** This question sums up the buy-side’s skittishness and defensive posture. In one form or another, many of our clients are being asked to discuss their worst case scenario regarding earnings in the short-term and its impact. It’s as if the buy-side isn’t even contemplating companies hitting estimates, but they are trying to determine how badly they could miss them.

Special Report: Continued...

- 5. Hedge funds remain in the mix.** Despite proclamations of their demise in the financial press, a majority of our clients indicate that their communications with hedge funds has not changed dramatically. As noted earlier, our clients indicate that the number of inbound calls from hedge funds definitely declined, but the number of meetings taking place with hedge funds did not change significantly in 2008. We believe this is the result of many of the smaller funds, which took up a disproportionate amount of an IRO's time and provided a disproportionate amount of annoyance, pulling back.

Communication Strategies for 2009

Our clients that participated in the survey indicated that they have indeed re-worked their communication with the buy-side to increase the focus on balance sheet items and liquidity. We expect that these issues will remain very relevant into 2009, and messaging and materials should reflect their importance. If possible, the safety and stability of your balance sheet in current economic and industry conditions and potentially worsening conditions should be emphasized to address the inevitable "doomsday" or "worst-case" scenario question. While we don't recommend succumbing to the buy-side's decidedly negative vernacular, a clear-minded assessment of balance sheet risks is necessary. It is also important to proactively communicate with the buy-side (both shareholders and targets) during this period of decreased incoming communications. Your communications should acknowledge the current environment and detail the initiatives that have been put in place to manage your way through it. We do expect the buy-side to emerge from their shell-shocked state of mind and heighten their level of analysis to identify the companies that are managing their way through this environment more effectively than others.

There is hope for 2009. Everyone, particularly the buy-side, is itching for a return to fundamentals. According to a fourth quarter survey by Russell Investments, 72% of the money managers they surveyed feel the U.S. equity markets are undervalued, which is the highest level in the survey's history. Additionally, 50% of the managers believe that equity markets will rise by more than 10% in 2009. Of course, most buy-side managers would be inclined to believe or at least hope for an advancing market following the damage done in 2008. Compelling fundamentals are in place, but the fear and panic that characterized much of 2008 remains. Your communications should take on the buy-side's concerns head-on in order to remove the fear that is stalling investment decisions.

For more information about this study contact:

Chris Taylor
EVP & Managing Director, Global Investor Relations
212.849.5351
chris.taylor@ipreo.com

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