Credibility Does Not Come in a Can!

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Due to extraordinary productivity gains, surging capital spending (including new investment in information technology), low inventory levels, the creation of better-paying jobs, and rising take-home pay, the stage is set in the U.S. for a great advance in share prices. Tax-rate cuts on capital gains, dividends, and personal incomes are providing a powerful stimulus and the Federal Reserve Board is stoking the monetary fires.

Despite a welcome series of federal government budget surpluses in recent years, and the appointment of a more business-friendly prime minister, Canada's GDP growth rate in 2004, and for some time to come, will pale by comparison. That is so in part because we have been content to live off the avails of the declining value of our currency, rather than bite the bullet and make the capital investments necessary to improve our productivity. Our tax rates are out of whack with the U.S., as are Canadian short-term interest rates, both of which are exorbitant by any measure.

Notwithstanding, Canada's credibility as a nation, as measured by the robust performance of the loonie, has increased. That is so in part because the U.S. has stumbled in the past while, the result of ballooning deficits and a series of government, corporate, investment banking, and mutual fund industry scandals. As a consequence, investors have taken to buying the Canadian dollar and selling the American greenback.

STOP BARKING UP THE WRONG TREE

Unfortunately, the vote of confidence in our currency is not expected to translate into higher multiples of cash flow and earnings for Canadian stocks and trust units. For that to happen, entrepreneurs must convince investors that they are on the right track and will remain so for some time to come. Premium security prices, like credibility, must be earned. They cannot be bought!

Claiming that your shares or trust units are undervalued will get you nowhere. Based on all available information known to your investors and the market at large, that is what they are worth at the moment. Lest we forget, it is the many existing owners who set the price, not the few new ones that may come along from day-to-day. The only exception to this rule happens when a takeover offer is announced.

Instead of trying to get a number of institutional investors to come aboard, CEOs would be better advised to concentrate on building a solid base of research analyst sponsorship. In so doing, the respective investment dealers sales forces will convey the right message to all the existing investors. Without their concurrence and support, you will just be spinning your wheels trying to get new buyers to drive the price through the roof!

CEOs who can only be found when times are good do not seem to realize that the seeds of credibility are better sown when times are tough, and the near-term outlook is cloudy at best. After all, high-flying stock and trust unit prices usually come off on the announcement of exceptional results, and go up once investors realize that an outfit's fortunes are beginning to take a turn for the better.

If more CEOs were investors in their own right, they would know from first-hand experience that good news is often known and discounted long before it is announced, whereas very few investors and research analysts go looking for bad news before it is made public. Therefore, the very bottom of the cycle always comes as a positive surprise. Stock and trust unit prices usually move quite a bit higher in short order as selling abates and buying is rekindled.

RETAIL INVESTORS SET STOCK PRICES

One should also realize that window dressing of a stock or trust unit price by investment bankers, institutional investors, or insiders is no longer allowed. Given as the big boys and girls much prefer to buy in blocks, and not pay a penny more than a competitor might have done, the odds are that the closing price every single trading day of the year will be determined by retail investors.

It is off this mark that all new issues will be priced. The higher the strike price, the lower the cost of capital, the better the chances of out dueling one's competitors. This is particularly the case when times are tough and investors inevitably separate the wheat from the chaff.

So never sell retail investors short. They are the way to the top of both the peer-group leadership and credibility ladders.

NEVER UTTER A COMPETITOR'S NAME IN VAIN

Rather than pretending that you are the cock of the walk, you would be far better off to remember that it is the examiner who determines how well one is doing, and not the examinee! Rather than try to imply that the performance of your company is on par with that of the industry front-runner by claiming that your common shares or trust units are relatively undervalued, you would be wiser to figure out just why that is the case.

If and when you do, you will inevitably come to the conclusion that investors in the main are more convinced about the prospects for some of your competitors than they are about the future for the outfit you hold near and dear to your heart. It will remain that way until you change your tune. The ball is in your court, so why not get on with what truly needs to be done to turn your enterprise's reputation around from being an also-ran into a world-beater. Rapport can show you how to make your dreams come true. In the meantime, here are a few tips that will stand your investor relations programme in good stead.

YOUR MESSAGE MUST BE CRISP AND TO THE POINT

At the outset, you must realize that successful, longer-term investors all have a few benchmarks they refer to when making the decision to buy or sell a stock or trust unit. Given the market meltdown of just a few years ago, they are not as likely to buy on a whim as they once did. They want to know the facts more than ever before.

Key points to include in your presentation are the current and target debt to cash flow ratio, the dividend payout and policy, the capital spending programme, the trend in margins, and the anticipated cash flow and earnings per share or trust unit for both the current year and the next.

In explaining what factors really drive the enterprise, avoid trying to be humourous. Comedians have years of experience and a well-rehearsed script, you do not. Furthermore, you are bound to get off-track and lose the audience's attention. Investing is a serious game. Keep your presentation that way!

The primary objectives of these encounters are to build understanding and gain credibility, not to recount absolutely everything you happen to know. Rather than drone on, be crisp and to the point. In doing so you will gain and keep the upper hand. A fifteen-minute presentation, twenty maximum, will also make for a more lively and informative question-and-answer period. Always repeat the question, as it will give you a moment to gather your thoughts. Do not allow anyone to try to grandstand on you. When the questions start petering out, draw the meeting to a close. Thank everyone for attending, and get about to shake hands with as many guests as you possibly can. Do not let your guard down until they have all left. If you really want to find out how well your message is being received, have Rapport develop a comprehensive response report.

THE PLUSES AND MINUSES OF POWERPOINT PRESENTATIONS

In the beginning there were give and take conversations, followed in time by ink-on-paper texts. Then along came the Powerpoint rangers. They edit ideas by boiling everything down into bullet points.

Most computer-generated presentations appear to be little more than snappy sales pitches. They lack verbal and spatial reasoning. The user is shepherded toward a staccato, summarizing frame of mind, converting public-speaking dread into hunky-dory, movie-making pleasure. This is not particularly appropriate when trying to encourage dialogue, solve problems or put forward challenging ideas or a subtle nuance.

We all know that images alone, without a compelling script that tells the story in a convincing manner, will never win a coveted Academy Award. The same applies whenever a CEO speaks to the investment community. The presentation must allow the audience to come to understand the thought process supporting the corporate strategy that is expected to result in better margins and higher returns on the capital employed.

Whereas filmmakers have two or more hours to put their message across, the CEO has to do so in twenty minutes or less! It is no easy task, but it must be mastered if one hopes to gain research analyst concurrence and sponsorship, short, and particularly longer, term. All of which suggests to us that investor relations programme presentations should combine the attributes of Powerpoint with the written word. One without the other will not suffice. In order to be truly effective, CEOs would be wise to upgrade their writing and presentation skills, if for no other reason than to be able to know the difference between a well-reasoned story and one that is at best average. It would also help to prove a point in the office, on the road and even at home – the ultimate test of one's communication skills!

Rather than abide by the "Rules of Seven" – seven bullets per graphic and seven words per line – you should speak from the heart and tell the audience more about what is really on your mind. To do that, you are going to have to spend time collecting, sorting, and carefully putting your message down in writing, so that it can also be made available on the corporate website to anyone interested in what you have to say.

This cannot be achieved overnight. So please set aside the time necessary to do things right, remembering that poorly shod horses seldom win major stake races, and that you want to cross the finish line in first place. Also-rans never sell for a premium price. Most never even get to stand at stud. Canned presentations never achieve what needs to be done!

STAY WITH THE PROGRAMME

As fewer than 50 percent of all the investment research analysts, portfolio managers, and senior stockbrokers are likely to attend information meetings at any given time, you have to repeat the process at least every six months if you ever hope to get and have your outfit's trading statistics stay on the majority of their computer screens. Otherwise your outfit will fall from favour, which is not in your, or the existing investors', best interests.

While broker-sponsored conferences and road shows have a place in every investor relations programme, they are not particularly effective because they exclude all the competitors' research analysts and stockbrokers from participating. It also leaves the others with a sour grapes taste in their mouth, for fear of being excluded from the very next underwriting opportunity!

I would advise you not to visit directly with retail stockbrokers in the branch offices of the major firms, as many royalty and income trusts have done in recent years, unless the firm's research analyst is on side. Otherwise, attendance will be disappointing, and there will be little or no response until there is a trustworthy buy report to back them up. They never again want to foot the blame for a recommendation that went awry.

If you are thinking about listing in the U.S., the NYSE and not the Nasdaq is the way to go, unless the enterprise is deemed to be high-tech in nature. Doing so when times are difficult could possibly result in a whole host of new-found friends.

If, however, you decide to do so when times are great, which is the usual scenario, you will be quite disappointed, as the day-to-day trading volatility will, in all likelihood, become more trying than your nerves can stand. When the tide of enthusiasm for your shares or units changes from bullish to bearish, as inevitably it will in time, U.S. investors will stop at nothing to get off a non-American investment position, knocking out every bid in sight.

I would think twice about spending the extra time and money. Your stock or trust units may not go up in price, and you may not gain access to cheaper pools of capital or realize enhanced trading liquidity. Furthermore, it is extremely difficult to secure informed and ongoing American research analyst coverage. If you are ever fortunate enough to do so, it can be fleeting. In any event, the Canada-US Multi-Jurisdictional Disclosure System (MJDS) allows Canadian companies access to American investors without a U.S. listing, and that will suffice as far as most Canadian issuers are concerned.

In the final analysis, investors believe that it is always better to stick with the devil you know rather than go looking for the one you do not. Top-tier multiples of cash flow and earnings are a reflection of an issuer's well-being, and of the credibility and capability of the CEO and the management team. As noted earlier, premium currency and security prices must be earned. They cannot be finagled.

Credibility is a valuable attribute. It gives an outfit a leg up on the competition, but if it is ever lost it is almost impossible to regain in short order.

So mind your manners, stick to your guns, and never lose sight of your investors' best interests. In so doing, you will gain credibility and enjoy the benefits of a premium-priced stock or trust unit. Such can be yours for the taking. So get on with what needs to be done to earn and keep it. You will be very glad you did. Credibility does not come in a can!