Vive la différence!

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APRIL 2004

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Vive la différence!

We are often asked to explain why Rapport-organized information meetings and COPIC conferences are so special, as compared to those sponsored by an industry association or an investment dealer. While each and all have a place in a comprehensive investor relations programme, vive la différence!

INVESTOR RELATIONS PROGRAMME OBJECTIVES

As with all other worthwhile endeavours, in order to be truly successful, investor relations programmes must have clearly defined and attainable objectives. The pieces of the puzzle must all fall into place before one can enjoy the many benefits afforded those issuers whose shares or trust units consistently trade above the average industry multiples of cash flow and earnings.

Given our thirty years of proven experience in advising more than 500 corporate, royalty and income trust clients, we firmly believe there to be but five important objectives to work toward.

1) A concerted effort must be made to build and maintain a solid base of investment dealer research analyst sponsorship. Not only must these individuals become well-informed, they must be confident enough about the prospects such that the respective institutional and retail investor sales forces can be convinced to actually talk about your outfit to the firm's investor clients. In this way the existing share or trust unit owners will be encouraged to stay aboard for the ride to higher security prices. They may also buy more, and thereby encourage others to do so for the very first time.
2) In order to improve one's credibility and that of the respective enterprise, the CEO, CFO, IRO and other senior executives must become adept at presenting the story. They must do so in such a way that the target audience can repeat it, almost verbatim. In other words, it must remain simple and to the point, focussed on matters of greatest interest to investors, such as: the strength of the balance sheet; the target capital ratio; the anticipated growth in revenues; the trend in margins, cash flow, earnings and the dividend or payout policy.

   They must be willing and prepared to stand tall when the going gets tough and the competitors are running for cover. As I have suggested many times over the years, never lose sight of the fact that the seeds of credibility are better sown at the bottom of a stock market cycle, rather than at the top when the leading indexes, stock and trust units prices have nowhere to go but down.

3) Institutional investors can play a very important role in helping an outfit raise additional capital. In fact, special warrants and most bought deal financings, priced at a discount, play to their favourite way of getting a leg up on the stock market averages against which portfolio performance is measured. Notwithstanding, it is important to remember that they usually buy to sell, rather than buy and hold for the longer term.

   On a day-to-day basis, they prefer to buy in blocks, never to pay a penny more per share or trust unit than did a competitor. The notion that institutional investor portfolio managers willingly bid prices up in order to gain a position is simply not true.

   The greater the number of institutional investors you have in your camp, the less volatile the trading pattern will become in due time. This is because there will be many others ready to buy at bargain prices should someone decide, for whatever reason, that they must sell off a particular portfolio position quickly and are prepared to knock down the price in order to do so.

4) Notwithstanding all the attention given to institutional investors, the real darlings are the longer-term individual investors. They invest their own money and take whatever time is needed to buy good stocks and trust units at fair prices. They will also hang tough if they are convinced that everything is more or less on track to produce better cash flow and earnings per share and a dividend or distribution increase may be in the works in the near to medium term. They are the salt of the earth.

   The primary contact is their stockbroker(s). Clear and concise investment comment is an important consideration, whether it comes from the investment dealer's own research analyst or not. As the insiders, investment bankers and institutional investors are no longer permitted to high close a stock or trust unit, trying to make things appear better than they really are, it is the retail investor that ultimately determines the closing price every trading day of the year, off which any and all additional financing will be benchmarked. Therefore they should be treated with respect.

5) The fifth and most important objective has to do with the realization of premium-to-peer group multiples of cash flow and earnings during both buoyant and troubled times in the stock market. Such is the best defense against an undesirable takeover offer and will make all future financings less expensive than would likely be the case for many of one's competitors.

   In order for this to come about, the CEO is going to have to make real progress in relation to objectives one through four. It will not happen otherwise. Nor is it possible to achieve on short notice! Furthermore, if you are going to be at it for the next while, you might as well enjoy the ride to better stock or trust unit prices. Getting there can be a whole lot of fun if you go about it in an organized way. Hit-and-miss efforts will always fall short of the intended target.

With these objectives in mind, let us examine the strengths and weaknesses of the various forms of information meetings and investor conferences.

INDUSTRY ASSOCIATION CONFERENCES

Whether the corporate presenters pay to participate or not, expenses are incurred and must be covered. The salaries of the staff, the meeting rooms and audio-visual equipment, the receptions and luncheons, et cetera are not free. Though a few may turn to industry suppliers for a promotional fee as a way to offset some of the costs, others must foot the remaining bills.

Another sure thing is that no industry association is ever going to be fully in the know concerning the ways of the capital markets and the characteristics of the key players. They also have no way of understanding what really counts when it comes to keeping and gaining investors, or how to go about achieving top-quartile multiples of cash flow and earnings. Similarly, there will never be any meaningful follow-up from one year to the next.

That is so as very few of said organizers have ever owned a diversified portfolio of securities, so there is little chance that they know how to get an investor to respond in a positive way.

To their credit, trade associations do make an effort to invite an array of investment dealer research analysts and institutional investors to attend. Missing from the guest list, however, are the stockbrokers calling on retail investors who characteristically own 55 percent of all shares available for public trading. This is a very important oversight as objective number four will attest. Without this missing link it is virtually impossible for the presenting entities to realize better multiples of cash flow and earnings, or a lower yield in the case of a trust unit.

INVESTMENT DEALER CONFERENCES

The best thing about such outings is that they are free as far as the corporate presenters are concerned. Another plus is that almost every CEO who is invited cannot wait to be there!

The costs incurred are about the same as for industry association conferences, and ours for that matter. These charges are paid for by way of the stock trading commissions and underwriting fees that are expected to be generated as a result of getting everyone together.

If the organizer is a major Canadian underwriter, the firm will impact about 13 to 15 percent of the entire institutional investor market and perhaps a like percentage or slightly more of the retail investors from coast-to-coast. If the investment dealer is a boutique, the relevant market share statistics are less than 5 percent of the institutional investor market and of little or no consequence as far as retail investors are concerned.

A second soft spot is that none of the other investment dealers' research analysts are ever invited to attend, despite the fact that their firms account for fully 85 percent or more of the total investor market for Canadian stocks and trust units. Even if they were, few would show up for fear of appearing to be playing second fiddle at a competitor's concert.

CEOs must also never lose sight of the fact that by participating in an investment dealer-sponsored conference, one is expected to include the respective firm as the lead or co-lead of the very next underwriting, merger, acquisition or disposition assignment. Though participation in the conference may be free, there definitely are strings attached.

In terms of the five investor relations programme objectives, investment dealer-sponsored events inevitably come up short as to building broadly based research analyst sponsorship, and boutique firm functions fail to encourage retail investor participation.

On top of which, if a trade association or an investment dealer sponsored conference insists that presentations go on concurrently in adjacent rooms, the audience is split, and the impact diffused. As you are not in charge of your own destiny at such conferences, and have to accept what is offered, the results may be less than what you had hoped for.

RAPPORT-ORGANIZED EVENTS

Rather than exclude one group or another, we make a concerted effort to put all the key players on notice about a corporate client's invitation to attend an information meeting, or one of our COPIC conferences. We call all the invitees before the event to encourage their attendance. If someone chooses not to come, they know for sure who is in town and why they are likely to hear about what was said soon after the presentation is made. It has been that way since 1975.

We know all the tricks of the trade and have invented a few of our own in guiding upwards of a thousand CEOs and CFOs over the past thirty years. No other firm has our wealth of knowledge, experience, or reputation for doing things right. That is particularly so amongst the real movers and shakers in the investment community. None of our competitors has ever produced such a comprehensive series of capital formation and investor relations programme essays for senior executives to read and contemplate.

Furthermore, all our investor relations programmes have clearly defined objectives. Those who retain us on a year-over-year basis inevitably gain ground on their competitors in terms of corporate credibility, research analyst sponsorship, institutional and retail investor understanding, and the multiples of cash flow and earnings, all of which ultimately result in a significantly lower cost of capital.

Many investors key off our corporate client list knowing from experience that better share and trust unit prices are in the making. In fact, if investors had bought a portfolio of the companies or trusts presenting at any one of our nearly sixty COPIC conferences – dating back to 1982 – they would have always done better than the specific TSX sub-index over the ensuing twelve months. To our knowledge, no other firm can make such a claim.

In addition, if you have ever participated in one of our COPIC conferences, you will know first hand how interesting it is to hear the other sponsors plead their case. Everyone learns from this kind of experience.

Our success is due in part to our longevity and the fact that we have never accepted a down-and-out issuer as a client. We pride ourselves in being discreet. It is one of our greatest strengths.

We are still the only firm that takes the time to put together a detailed follow-up report after every corporate client information meeting. The sole exception to this rule occurs when we organize wide-open research analyst gatherings in support of new issue offerings, when we are precluded from doing so by the underwriters.

The only drawback to working with Rapport is that issuers have to pay a very reasonable fee in order to achieve outstanding results. As noted in our essay *Kicking Butt*, CEOs are advised to retain the very best advisors that money can buy if they want to keep in step with their competitors who inevitably have done so.

A LAST WORD OF ADVICE

Never lose sight of the fact that great fortunes take time to build. Quick fixes are no substitute for astute, well-defined, long-range capital formation and investor relations programme strategies.

Even so, if you are going to venture out to tell your company's story, you would be well advised to have a prepared text to hand out in advance. This allows the listeners to focus on what you have to say and not be distracted by having to take notes. Put it on your website so that all the shareholders are kept in the know, and draw attention to it by e-mailing all your nearest and dearest contacts in the investment community, or have us do it for you.

Insist that all conference presentations be webcasted. They should be advertised well ahead of schedule in the financial press, and archived in order to allow the widest possible audience to learn about what you have to say. After all, a successful investor relations programme is about reaching out to potential buyers of a company's securities without neglecting the information needs and the best interests of the longer standing investors. For without their concurrence and support, you will never get to where you want to go!

If I were the CEO of a publicly traded company or trust and wanted to make sure I was on the right track, I would pick up the telephone and get Rapport on side. If I were a research analyst or stockbroker in contact with a CEO who could stand a bit of market savvy, I would have them call us directly. We are always ready, willing and able to lend a helping hand. Vive la différence!