

Upon Reflection

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Upon Reflection

RAPPORT was recently retained by its 500th corporate client since the business was launched in 1974. Our success is the result of innovative investor-related strategies and the contributions of many dedicated people.

All successful firms are a reflection of the founder's or the partners' past. In my case, I studied economics and chemistry at McGill University, and in 1959 went to work as a technical sales representative for Union Carbide Canada Limited. I was soon sent to Charleston, West Virginia, to work in the research laboratories, and to Tarrytown, New York, to learn about customer service. By the time I got to go out on the road and call on well-established or prospective customers, I was well versed on the products we had for sale, knew what to expect when I went knocking on doors and how to ask for the order. With the aim of gaining an even larger share of the available business, we were required to complete call reports, detailing who we saw, what we talked about, and what the immediate and longer-term plan of action should be.

Gaining additional market share inevitably required some degree of innovative thinking. New applications, certainly so. My nickname was "Ya but" because I would never take "no" for an answer. My persistence led to a better way to make plasticizers (used in the manufacture of vinyl sheeting, the primary market being car and truck seats), and to the use of water-soluble acrylics, rather than messy starch, as the binder in the coating of fine papers. I soon became a recognized "authority" and was invited to speak at a number of chemical industry conferences.

However, when I asked to be promoted to the position of chemical sales manager in Canada, I was told I was too young for the job. So I quit right there and then. Now some thirty-eight years later, I am receiving my just due in the form of a \$16.73 per month pension!

GOING TO BAY STREET

My next port of call was to open an office in Toronto for an old-line Montreal stockbroking firm called C. J. Hodgson Securities Inc. Dating back to 1912, the firm made its mark by offering in-depth equity research to the burgeoning institutional investor market for Canadian stocks. Through an equally owned sister company, C. J. Hodgson Securities Limited, we managed money for individual investors, large and small. We did no

day-to-day retail business per se; nor did we participate in underwriting syndicates. In today's terms we would be considered to be an independent source of objective research.

Given my knowledge of marketing and the partners' well-earned reputation for calling a spade a spade, I was soon able to open new accounts across Canada, the United States and Europe. Next to Jones Heward & Co., a look-alike firm also of Montreal, we had a very good reputation, and gained far more than our fair share of large-size orders as time went on.

In terms of innovation, I was the first Bay Streeter to invite the president of a major company to tell his story directly to institutional investor portfolio managers. He was an unmitigated disaster his first time out of the starting blocks, but this shortcoming led to my coaching other "buy" recommendation company CEOs on how to get their message across to this rather particular and critical audience. Obviously, no "sell" story was ever told this way.

Needless to say, the underwriters all spoke up against us for fear that we might someday cut into their well-established way of doing business. Not wishing to ruffle their feathers, I came up with the idea of doing private placements of common shares, earning a 2 percent commission, rather than a typical 6 to 8 percent underwriting fee, and gained massive goodwill in the process. This was the beginning of what we all now know to be the special warrants way of raising equity capital. In my day, there were no rules to abide by. We made them up as we went along!

Unfortunately, and as is so often the case in the investment industry, many of my partners could not leave well enough alone. They proceeded to get into the retail business in the Montreal office, offering margin accounts to the biggest volume stock traders. When push came to shove and the loans could not be recovered, the firm was forced into finding a new controlling shareholder with deep pockets. It was at this point in time that I decided to strike out on my own.

BECOMING AN INDEPENDENT ADVISOR

I signed on with Gordon Securities Inc. with the aim of creating a better bond between the very capable research analysts and the stockbrokers calling on institutional investors. Unfortunately, the idea never really took hold given as block trading was, and remained, the firm's primary focus. So in the fall of 1974 I bit the bullet and started **RAPPORT** Investor Relations Advisors Inc., the first stand-alone investor relations firm in the world. I believe I can make this claim as the three large New York-based firms that originally coined the phrase "investor relations" also offered comprehensive public and government relations services, and hired only reporters who had never traded or owned a stock to do the work.

It was only a few years later, having helped a number of corporate clients gain a better understanding of what constitutes a good company in the eyes of longer-term investors, that the firm's name was accordingly adjusted to **RAPPORT** Capital Formation Strategists Inc. Initially I targeted only the very largest Canadian outfits with poor reputations as far as investors were concerned, hoping to prove to my old Bay Street friends that I had not completely lost my marbles. That done, I set out for Calgary in 1981 to help smaller companies get a leg up in the capital markets.

This move led to the founding of the Canadian Oilpatch Investor Conference (COPIC), and more than 365 issuers have participated in the fifty-eight conferences held to date over

the past twenty-two years. While others may try to imitate us, not one is as capable as we are. No other firm puts together a detailed response report to allow the issuer to get a good reading as to how well the message is being received, or to what extent the stock is being recommended to investors large and/or small.

THE PROOF OF SUCCESS IS IN THE STOCK PRICE

Every one of the 1,000 or more CEOs I have called on has told me that their company's stock is undervalued. That said, almost every corporate client that has ever retained RAPPOR on an annual contract basis has gained multiple points and, in many instances, has become a top-performing stock within its industry sector. Similarly, the COPIC conference sponsors, taken as a portfolio of stocks, have always outperformed the respective sub-index of the TSX on a year-over-year basis.

That is so because the respective CEOs have become more adept at telling their story, and more in tune with the wishes of the shareholders. All the while the research analyst sponsorship factor has improved markedly. These well-informed critics continue to have a very positive influence on the investors they advise and the price of the stocks they follow.

YOU NEED A GAME PLAN TO SUCCEED

If you want to become a success in your own right, you will need the help of capable people with sound track records and enviable reputations. You will need to understand the subtleties of the capital markets, and when you go out on the road to tell your story, you are going to have to know all there is to know about your company as far as investors are concerned. You are also going to have to keep track of who you have called on, get factual feedback and develop a comprehensive game plan. If you succeed in doing so, you will gain the concurrence of a wide audience of investment dealer research analysts and thereby attract solid support from a whole host of longer-term investors.

If you fail to do so, and only get out and about when times are good and the sun is shining, your company will never gain even so much as average multiples of cash flow and earnings.

WE ALL NEED MENTORS

I was fortunate to have been taught economics and science by enlightening professors at McGill University, to have learned the ropes of marketing thanks to my bosses at Union Carbide, and the ins and outs of the investment industry from my partners at C.J. Hodgson. Since launching RAPPOR almost thirty years ago, I have had the opportunity to tie these various facets of my life together by way of giving advice to many hundreds of CEOs. I am truly grateful to all those who have encouraged and supported me along my way, and I could not have gotten to where I am today without their individual and collective input. I now see myself as being a mentor of sorts to others striving to make their very own mark.

To this end I have written extensively about investor relations, capital formation, politics and golf. In this context, *Reflections of a Bay Street Cowboy* and its sequel, *Further Reflections of a Bay Street Cowboy*, are a worthwhile read for any CEO hoping to play by the rules and come out ahead of the competition! If you are concerned about Canada's longer-term future, read *Dithering Heights*. On a year-over-year basis, *No Free Lunch* and subsequent *Off-the-Record* speeches are worth perusing. If you are into playing my favourite game, *Parables of Golf*, *A Caddie's Lament* and *Take Dead Aim* will provide the answers to every player's dreams!

Just in case you think – or hope – that I am slacking off in my “golden” age, think again. The third volume of my *Reflections* is about 20 percent done. My next *Off-the-Record* speech is being polished up for delivery, and *Golf is a Three Hour Game* is about to be started. Writing is my hobby, and I am at it every day.

LOOKING TO THE FUTURE

I sincerely hope that more and more CEOs will come to the realization that despite any changes that may come about thanks to the current round of hearings into the conflicted ways of investment bankers, such firms should never be counted on to tell the truth, the whole truth and nothing but. Similarly, those CEOs who persist in having these sort show them the way are clearly on the wrong track.

CEOs should also come to realize that each of the very largest Bay Street firms has but a 12-plus percent market share, whereas RAPPOR can cause better than 50 percent of the investor audience to sit up and pay close attention. We also keep expenses in check and our fees are reasonable by any measure.

So, if I were you, I would give RAPPOR a call and get on with what truly needs to be done to assure better multiples of cash flow and earnings during both bull and bear markets. Could you or your longer-term investors truly ask for anything more?

A WORD OF THANKS

To the many who have contributed to my success and provided me with a wealth of wonderful opportunities to see the world, challenge the status quo and come out ahead, I say thank you. I have had a great and rewarding life and I look forward to knocking on many more doors before all is said and done. Maybe yours will be the next. Please let me in. I promise, you won't be bored!