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BULLETIN

Torque!
Addressing an uncertain economic environment from an investor relations perspective

The difference between risk and uncertainty is subtle but important. While risk can be bounded, uncertainty is unpredictable. Although the ambiguous state of our capital markets could be easing - at least we now know we are in a recession - how long it will last, and how deep the pain will go, is questionable. Signals remain mixed. Given this state of uncertainty, the question from an investor relations perspective becomes: how do you provide confidence that your company's investment thesis holds? What tangible actions can you take? How do you communicate in uncertain times?

Guidance is below.

Be prepared…for multiple alternatives

The economic crisis that started as a localized liquidity issue within the asset backed security market drove unprecedented and rapid change in the capital markets around the world. The impacts of the crisis are far-reaching, and are creating fundamental changes across various industries. The speed and severity of the downturn was such that the impacts transcended normal business risk and has left companies operating under uncertain economic conditions. The outcomes we have seen to date include the inability of certain public issuers to raise capital, secure sales contracts, pay back debt, and develop needed capital expansion programs.

There are a number of proactive measures you can take to bolster your company's business case. Impress on your investor the degree to which your company is managing in an environment of uncertainty. Saying nothing is not an option. Communicating that your company will not be impacted (when your peers clearly think differently) is not an option either.

Consider your strategic position going forward under various scenarios. Be prepared to attack a worst-case scenario in front of your investor and at the same time know what leverage you have to adapt. From an investor's perspective, asking about your defensive strategy is a fair and cautious approach. Scenario planning, the ability to pursue various strategic directions as needed, is key as it will allow the company to react quickly, stay agile and take advantage of unique opportunities that may arise. Communicate the degree to which you can pursue various alternatives and do so by considering the strength of your balance sheet.

The degree to which you can communicate your readiness for various scenarios, ranging from hostile bids and proxy fights, to loss of major contracts and acquisition opportunities, the more thoughtful and prepared you will be viewed by your investor.

Check assumptions and adapt

Check your assumptions. Management may *implicitly* assume it has a cautious and prudent strategy. The difference today is that caution, prudence and insight have to be *explicitly* discussed and acknowledged with the investment community. Therefore, assume nothing.

It is also advisable to review all operating assumptions that impact earnings and communicate the degree to which the assumptions are being adjusted to reflect the downturn. Know your balance sheet inside and out, and be prepared to speak extensively on cash utilization, fixed and variable costs, covenant risk and spending commitments.

Operating assumptions need to be well understood by your investors and analysts to reduce surprises. Many will address them one by one. Communicate clearly where you stand to lose in the near term, but also fully understand how your business stands to gain. The better you can discuss the defensiveness of your industry and your company, the better it is for you. If you are in a vulnerable position, acknowledge the challenges ahead and how you are addressing them. How is the company de-risking the business?

Be prepared to address key drivers such as: customer demand, credit availability and counterparty risk.

Adapt. If there is a misperception in the marketplace or an underlying confusion in your approach, acknowledge it *explicitly* and correct it at the next public opportunity. It is within the scope of the investor relations function to ask for feedback from sales, bankers and analysts. Clearly understand the top issues of your covering analysts and seek to position yourself in front of them.

Similar to when a company undertakes a review of synergies post-merger, companies should be doing a thorough review of self-driven synergies to maximize efficiency. In this cost-conscious environment, it is not just prudent to explore how the business can work more efficiently, but it makes sense to provide concrete examples to your investor on how you are going about that process and the benefits you will realize.

Network: better and more often

The previous measures are internally-driven, but equally important to a public issuer, especially now, is the ability and motivation of investor relations to gather feedback from the market. Investors are less tolerant of unmitigated risk, capital is highly constrained and therefore portfolios are being carefully managed (and by consequence they are paying more attention to your business). Understanding the specific ramifications for your business is essential so that you can methodically de-risk the business in the best way possible. Speak to your bankers to understand how the industry is being recapitalized, how equity financings are being priced, which investors are looking for your particular type of investment and where the windows of opportunity lie for financings.

The practice of gathering feedback now is critical, as decision makers are forced into making quick and fundamental choices on their business. Gathering intelligence promotes holistic decision making, and ensures decisions are grounded in current reality, perceptions, and peer reactions. It is critical that companies maintain a strong feedback network. (Gathering feedback should be a priority in all functions, as the company should know what is changing in their industry and within their customer and supplier base.)

Therefore, seek frequent and targeted information from your financial stakeholders.

Look long term and position appropriately

Irrespective of present market conditions, the longer term view should figure strongly in any investor communications. Revisit the vision of the company, the fundamental value drivers and the long term competitive position you seek - and clarify these factors with your investor. Ensure that the goals and objectives which are publicly communicated have the underlying assumptions communicated as well.

The changes we are witnessing will likely lead to lasting and permanent changes across many, if not all, industries. Perhaps now more than ever a CEOs vision of the company's competitive positioning needs to be crystal clear.

Continuing with non-deal marketing; contributing to industry working groups and presenting to targeted groups of investors are actions which serve to underpin and support the company during times of short term pain and retrenchment. Remain visible and open to the market.

What market participants advise:

- **If you are adjusting operations, do what you say you are going to do**
- **Avoid coming across as either out of touch or over-confident**
- **Fully understand your balance sheet: sources and uses of cash, ability to repay/ restructure debt, covenant breaks and credit worthiness are front of mind**
- **Don't be greedy on pricing of new transactions, don't assume that equity is the only avenue**
- **Buy back stock, show confidence**
- **Poll your analysts on their top 3 issues**
- **Know what a non-management shareholder is looking for**
- **If there is a change of plans, be comprehensive in your response**

Get the message right

With all that has been said above, there is indeed a lot to communicate to the investor. The communication skills we need to utilize now require insight and intelligence, thoughtfulness and clarity.

Investor relations, now more than ever, needs to take a role in gathering feedback, assessing alternatives, reviewing entrenched assumptions and crystallizing the investment opportunity for the future, while clearly communicating the levers the company is using to adapt now and thrive later.

This is not a time to send mixed messages to the market. Before sending out a message, do the hard work of planning for multiple scenarios. Understand all the options you have to raise money, have a view on your operating assumptions, and at last, communicate your message clearly. Now IS absolutely the time to reposition, tinker with strategic alternatives, change the web site, rework the message and implement Best Practices across your external reporting function. Ask:

* Does your annual report support your short and long term strategic initiatives? Is it crystal clear? If you need flexibility in your approach, have you actually communicated that?

* Are you providing regular and consistent updates on projects through fact sheets, letters to shareholders and press releases? Are you correcting misperceptions each time and answering the most frequently asked questions within them?

* Are you telling the same message across all mediums, with equal access to all brokers? Do you have a process for communicating change in this environment?

* Are your press releases relevant and material? Do you have a balanced approach which communicates negative and positive news? Are you reporting future activities where you have the ability and intent to deliver? Do not press release good news that is irrelevant.

* Are you explaining the stability of your business as well as growth prospects? Are you giving enough evidence of your stability and ability to withstand severe economic conditions?

Consider non-deal marketing and site visits as constants in the investor relations program. Don't disappear just because times are tough.

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