CONVENE

WHITE PAPER

MAKE THE MOST OF ONE-ON-ONE MEETINGS WITH THE BUY-SIDE

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GETTING THE MOST OUT OF ONE-ON-ONES WITH THE BUY SIDE: BEST PRACTICES FOR IROS

CONTENTS

INTRODUCTION

According to industry research, over the past few years the market has seen various trends impact the way in which companies conduct one-on-one meetings with the buy side. One overall trend is that companies are increasingly scrutinizing their investment in investor outreach. This trend has largely been driven by a desire for more transparency and control over a company's investor marketing events. In addition, managing resources to attend meetings with the C-suite (whose time has become increasingly scarce) has left the onus on the Investor Relations Officer (IRO) to portray the return on investment (ROI).

Another trend that also has the potential to impact how one-on-ones are conducted is regulation as issued by The European Securities and Markets Authority (ESMA) for EU-wide implementation of MiFID II – particularly whether or not client dealing commissions can be used in any form to pay for research and the issue of using dealing commissions to pay for corporate access. Following on this, the Financial Conduct Authority (FCA) in the UK also issued regulation that asset managers are not permitted to use client commissions to pay brokers for arranging corporate access. The international investment community is watching to see how it unfolds, as the regulation not only applies to how UK asset managers interact with UK companies, but with all listed corporations globally.

Research conducted on behalf of Peel Hunt in late 2014 by Extel[1] confirms the potential impact of the regulation with 84% of buy-side respondents stating they believe that MiFID II proposals will affect the ability of Small and Mid Cap companies to access capital markets due to the reduction in liquidity driven by reduced sell-side research coverage.

These trends could potentially have a domino effect on IROs, who may ultimately need to take on responsibility for targeting and arranging meetings with investors in-house and liaising more with the buy side directly. The sell-side analysts are feeling pressure from two factors: from the buy side to continually originate and organize more value-added corporate access, and the need to assess how to prioritize what companies they cover. The buy side will likely become more selective and will evaluate meetings for their usefulness and quality – especially when they are paying for corporate access.

In our many discussions with IROs and the investment community (buy-side and sell-side analysts) we discovered that despite the resources needed to arrange, as well as advances in technology such as video conferencing, face-to-face meetings remain one of the most sought after forms of communication, with the one-on-one being the most desired. Further research reinforces the importance of face-to-face meetings as a recent study conducted by Extel[2] found that both IROs and the buy side place a high value (3.4 out of 5) on direct meetings with the CEO and CFO.

There are many benefits for both parties to sit down across from one another. For example, it allows a company to gain an individual's undivided attention, to present its investment proposition to a potential investor or provide an update on new developments to current investors. Similarly, it gives the investment community the opportunity to have their specific questions about the company's strategic and financial outlook addressed, while also providing privacy to ask questions they do not want to ask in a public setting (for fear of giving away information to the competition).

Additionally, many members of the investment community place a great deal of value in seeing the 'whites of the eyes' of management when they meet. Being face-to-face also allows them to assess body language and reactions to specific questions. For others, it is a strict requirement of their process to meet with a company representative in person before making any investment.

With these trends in mind, how can all stakeholder groups make sure the one-on-one meets their specific goals and objectives as well as staying compliant with regulation? This paper will discuss how establishing a relationship to build rapport and subsequent two-way communication will help make planning, execution and follow up seamless. Later on, we will explore some best practice considerations for conducting the perfect one-on-one.

1. Unintended Consequences: The Impact on the UK Equity Market of Proposed Research Payment Changes' – November 2014
2. Extel Pan-European Survey 2015

THE IMPORTANCE OF IR

The IRO is the liaison between management and the investment community (buy-side and sell-side analysts) so it is essential that a good rapport be established early on. One way to do this is to become a credible source of information, which means being well versed in the company and having the ability to address questions. If an IRO can prove early on that they are capable of answering questions, they increase their potential to be the first person the investment community contacts for information.

Keep in mind that while it is important to be able to adequately answer investor questions, these conversations don't have to be one-sided, and understanding how the investment community makes decisions to buy or sell is crucial to IR messaging and objectives. So go ahead and ask specific questions. The ability to ask pertinent questions about analyst models, their investment process, or whether they meet management of every company in their portfolio will become easier the more often you are in contact.

REGULAR TWO-WAY COMMUNICATION

Depending on the size of the company and its IR team, the traditional relationship between the IRO and the investment community (buy-side and sell-side analysts) is usually most active around earnings. Earnings season is typically when coverage reports are issued/updated and when sell-side analysts pay particular attention to how the companies that they cover are performing. However, it is important to communicate with the investment community throughout the year, in both good times and in bad. This means being available to address questions around a successful merger or acquisition, for example. Or not suddenly disappearing if the company has an unexpected negative change in the business. Instead, continue to meet with the investment community to ensure they fully understand the situation.

Regular, consistent contact will help the investment community gain a better understanding of your company's story, and build a stronger rapport. Regular contact with sell-side analysts will also help you to get to know the resources available to you at the various banks. For example, if your company's stock is experiencing high volatility, your analyst may be able to help you find or connect you with someone to help you find out what is going on.

If regular two-way communication is established (as outlined previously) relationships will be built. Bear in mind that it takes time and effort on the part of both parties. As when information is sought from the investment community, they expect:

- **An IRO to be proactive and responsive.** IROs need to anticipate and understand issues that may affect the business ahead of a major event such as earnings. Proactively addressing any issues can help you control the message while potentially reducing volatility in your stock.

- **That calls will be returned in a timely manner.** Quite often, sell-side analysts are calling on behalf of the buy-side and not responding encourages them to come to their own conclusions. They are obviously not looking for any insider information. Usually they just need more context, so responding to queries right away allows you to provide the big picture, while also maintaining an important relationship.

Similarly, the IRO should expect the same considerations when they call investors because if the two-way communication becomes one-way, the relationship will soon become tarnished.

BEST PRACTICES

'We really value IR activity, when it is extremely organized and instructive, in helping us see past the 'noise', and really understand business drivers.'

– Buy Sider from Large Continental European long Only fund

Based on the aforementioned groundwork, what follows are some best practices based on the assumption that the IRO, the buy-side and sell-side analysts are all working together to put together a one-on-one.

PLANNING

1. **Logistics** – Don't underestimate the importance of getting the logistics right. The key to a successful event is planning well in advance. This will allow time to establish who is doing what and give appropriate time to set up the meetings with the desired investors. During this phase, it's important to determine who will be attending the meeting (see #2 below).

2. **Meeting Participants** – Often the size of the company will determine who participates in the one-on-one. A larger company may send the CEO, CFO and IRO. A mid-size or smaller company may just send one representative. Budget can be a determining factor in who should attend (if the one-on-one is out of town it may not be fiscally possible to send more than one person). Another factor to consider is whether the meeting is with a current or potential investor. While both types of investors should be afforded the same consideration, a potential investor will likely want to meet with the CEO or CFO the first time, while an existing investor may be interested in speaking with another member of the management team (a product person, for example as they will provide direct expertise).

3. **Target List** – The IRO should take the initiative to come up with their own list of investors they want to meet with. If the meeting is being set up by the sell side, the bank's corporate access team will also have a list of investors. Sometimes it will be accounts the company has never heard of. The IRO shouldn't be afraid to ask about investment styles, etc. The sell side should also be prepared to manage the IRO's expectations as ABC mega-fund may not make it a priority to meet small – or mid-cap companies, or may not cover their specific sector. Using the sell side can act as a filter to ensure that the meetings you have are with investors who are genuinely interested in spending the hour learning about your company.

4. **Preparation** – Adequately preparing the management team is essential. It may seem obvious, but having a discussion about not disclosing any new information (especially if the meeting participant is someone who doesn't normally meet with the investment community). Another effective way to prepare management is by compiling a list of questions and conducting a mock Q&A. The IRO should work with management to come up with a list. It can also be useful to go through transcripts of previous events, such as an earnings call, to ensure a good sampling. Be sure to include tough questions and discuss how you will handle them if asked. It is important that management get the balance right. They shouldn't get defensive if asked difficult questions, or sound too rehearsed in their responses. One-on-ones may do more harm than good if management comes across as overconfident, hard selling or as setting overly aggressive goals. Likewise, the IRO should encourage the buy side to reach out directly before the meeting with questions and topics they want to cover. This helps management to anticipate and prepare information to cover, and ensures that both parties get the most from the meeting – crucial to demonstrating the value of these meetings to your management team.

5. **Know Your Audience** – Tailor information; new investors may want the entire story, while current investors may only want an update or to address specific questions. Put together investor bios and indicate what type of investor they are (bottom up/top down) and whether they will want to trawl through the financials, or if they are more interested in understanding the macro environment and, for example, how this will affect sales in China. It is also important to differentiate between those who are invested in peer companies and if they are only meeting with you as part of their due diligence on the peer group or industry.

6. **Social Media** – Many in the investment community are using financial blogs, such as StockTwits and Seeking Alpha, to share their ideas. Therefore, the IRO should do their homework and investigate whether the investor they're meeting with is part of this online community. It's important for an IRO be familiar with what online activity there is, who is part of that community, and what's being said about the company. This could be especially important for an IRO at a smaller company with no coverage because it shows the investment community that the IRO is in the know.

7. **Materials** – A PowerPoint slide deck is a traditional way to provide a presentation, but the investment community is increasingly using tablets and smartphones at meetings. Make sure your presentation can be easily read on iPads and smaller screens, but also have printed color copies on hand (three slides to a page) to allow participants to jot stuff down if they want to. It is also important to tailor the presentation somewhat to the level of expertise of your audience. Is this more a generalist who will want a company overview? Or is this person an expert in the sector with deep understanding of the company, who will want to go straight into a deep dive of the key topics?

EXECUTION

1. **Arrive early** and make sure the presentation is properly loaded, with a reliable Internet connection.

2. **Whatever additional materials you choose, ensure they are helpful and relevant to the discussion**. As mentioned in the planning phase, there should also be printed copies available and/or a softcopy on a USB key to leave behind – just in case.

3. **Be ready to address concerns**. If your stock has been shorted, for example, try to understand why. Then, record their negative points to address concerns in your upcoming meetings. The story is not always going to be perfect or positive, but if you address the buy-side's concerns, they will see that you have a legitimate strategy and execution plan in place. At the end of the day, transparency is key. Just because your stock has been shorted this isn't necessarily negative, as the buy-side is also providing liquidity.

FOLLOW UP

1. If anything that comes out of the discussion that needs to be followed up on, do so. For example, providing supplemental material to help address an unanswered question. It also doesn't hurt to send **a follow up note** to the buy-side to thank them for the meeting.

2. **The sell-side analyst should be ready to provide feedback.** This is not always an easy thing to do especially if the CEO or CFO are not particularly comfortable presenting or become defensive when asked tough questions. The IRO and the investment community (buy-side and sell-side analysts) have to be ready to hear and deliver feedback – it is important for all parties. Of note, some buy-side investors have a policy not to provide feedback via a sell-side meeting, as they want to keep their investment strategy private and minimize the information being shared with other clients. So the IRO should make sure they give the buy-side investor their contact details so they can contact the IRO directly with their feedback.

3. Similarly, the company should be ready to **provide feedback** to their sell-side analyst as to whether they felt the buy-side investors they met with were suitable or not.

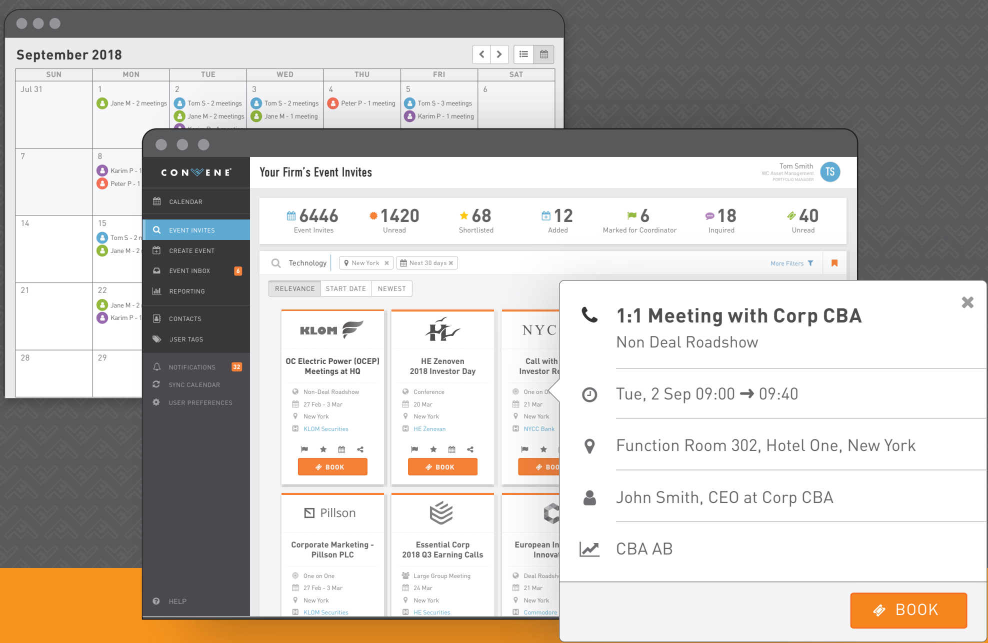
CONCLUSION

In spite of recent trends that include greater scrutiny by companies for transparency and control over marketing events as well as changing regulation, one-on-one meetings remain the most sought after method for companies and the investment community to communicate. There are many factors that can help make the one-on-one a success, such as having an established relationship and regular two-way communication. An existing relationship, as well as the best practices previously outlined above, will help make the planning, execution and subsequent follow up as seamless as possible.

Of note, an emerging trend not addressed in this paper is the increased use of technology to help companies and the buy and sell sides to manage meetings. This is particularly prominent in Europe and the UK with the ESMA's and FCA's changing regulations around corporate access as there isn't clarity yet on whether the existing model can continue. IROs and the broader investment community should watch this space as this could materially impact the way one-on-ones are conducted in the future. We will address new emerging technologies in a future paper.

ABOUT WECONVENE

WeConvene is a global, independently owned web-based platform that automates corporate access consumption and evaluation for the investment community. Events large and small directly impact investment strategies and WeConvene provides value to buy-side, sell-side and corporate organizations by enabling efficient discovery, booking and tracking of meetings.



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