



Everything You Always Wanted to Know About Investor Relations* *(But Were Afraid to Ask)

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How Many Investor Relations
Officers Does It Take to Change
a Light bulb?



Who Are the Players and What Do They Want?

- Sell Side
- Buy Side
- Companies



Who Are the Players and What Do They Want?



- Sell Side
 - Paid by commissions generated by trades
 - Their clients are the Buy side
 - They want more commissions based upon their expertise in generating investment ideas

Who Are the Players and What Do They Want?

- Buy Side
 - Paid on a percentage of Assets Under Management (AUM)
 - Their clients are the people they manage money for
 - They want more Assets Under Management from:
 - Stocks going up, and
 - Funds inflow due to a good track record



Who Are the Players and What Do They Want?

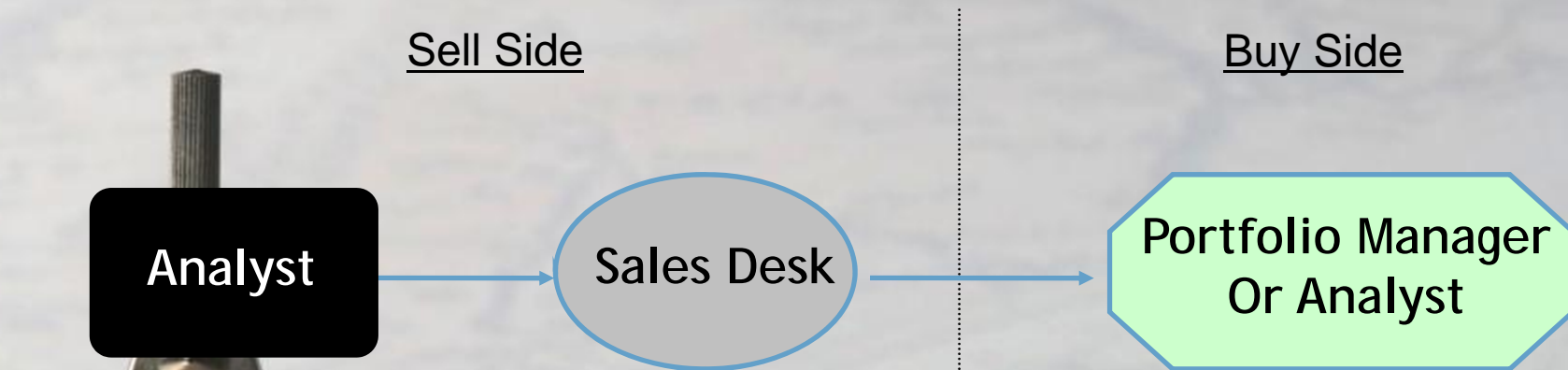


- Company
 - Paid by increasing net income and increasing valuation
 - Their clients are the shareholders
 - They want the stock price to go up

What Does a Typical Trade Look Like?



How the Sell Side-Buy Side Relationship Works



Sell Side research analyst has information on prescription trends, which will favor the drug store industry, consisting of Walgreens, CVS and Rite Aid.

Information is given to Sales people on Sales desk during morning call.

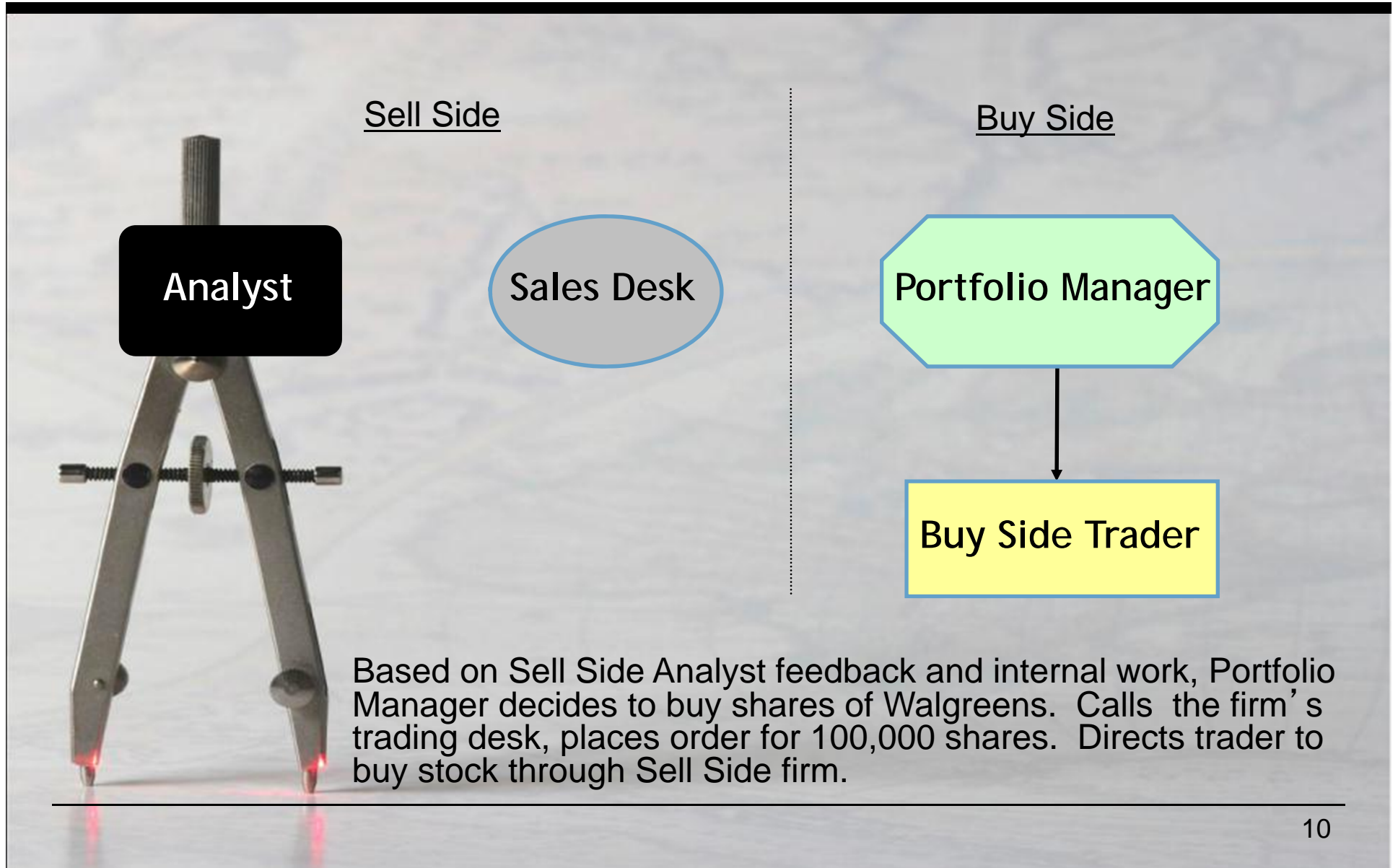
Sales people call either Buy Side Analyst or Portfolio Manager with Analyst's investment thesis.

How the Sell Side-Buy Side Relationship Works

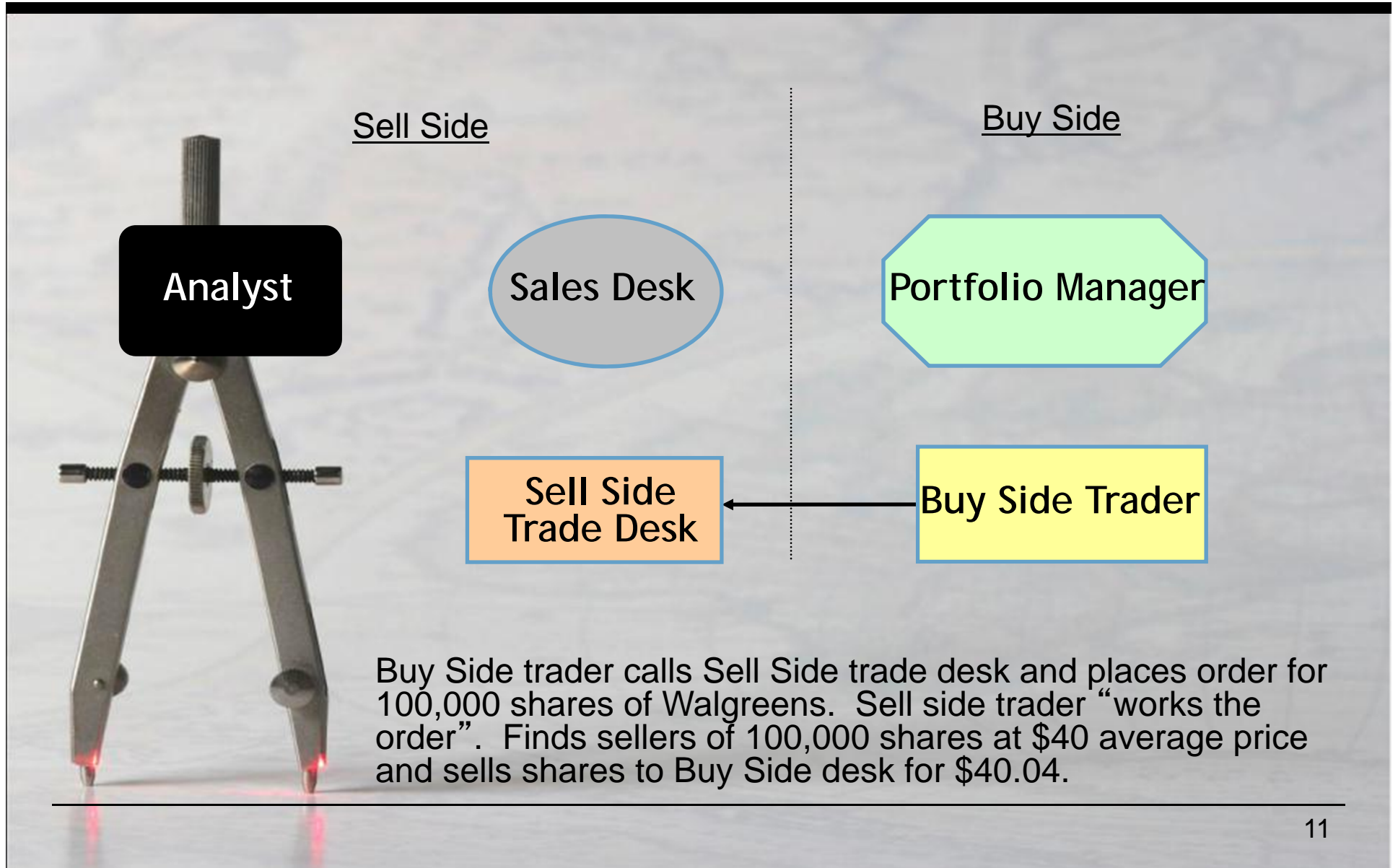


Buy Side analyst and Portfolio Manager discusses idea with Sales Person. Portfolio Manager interested in sector and industry but can't decide between Walgreen, CVS or Rite Aid. Portfolio Manager and/or Buy Side research analyst call Sell Side Analyst to discuss. Sell Side Analyst provides opinion on which stock is a better buy right now.

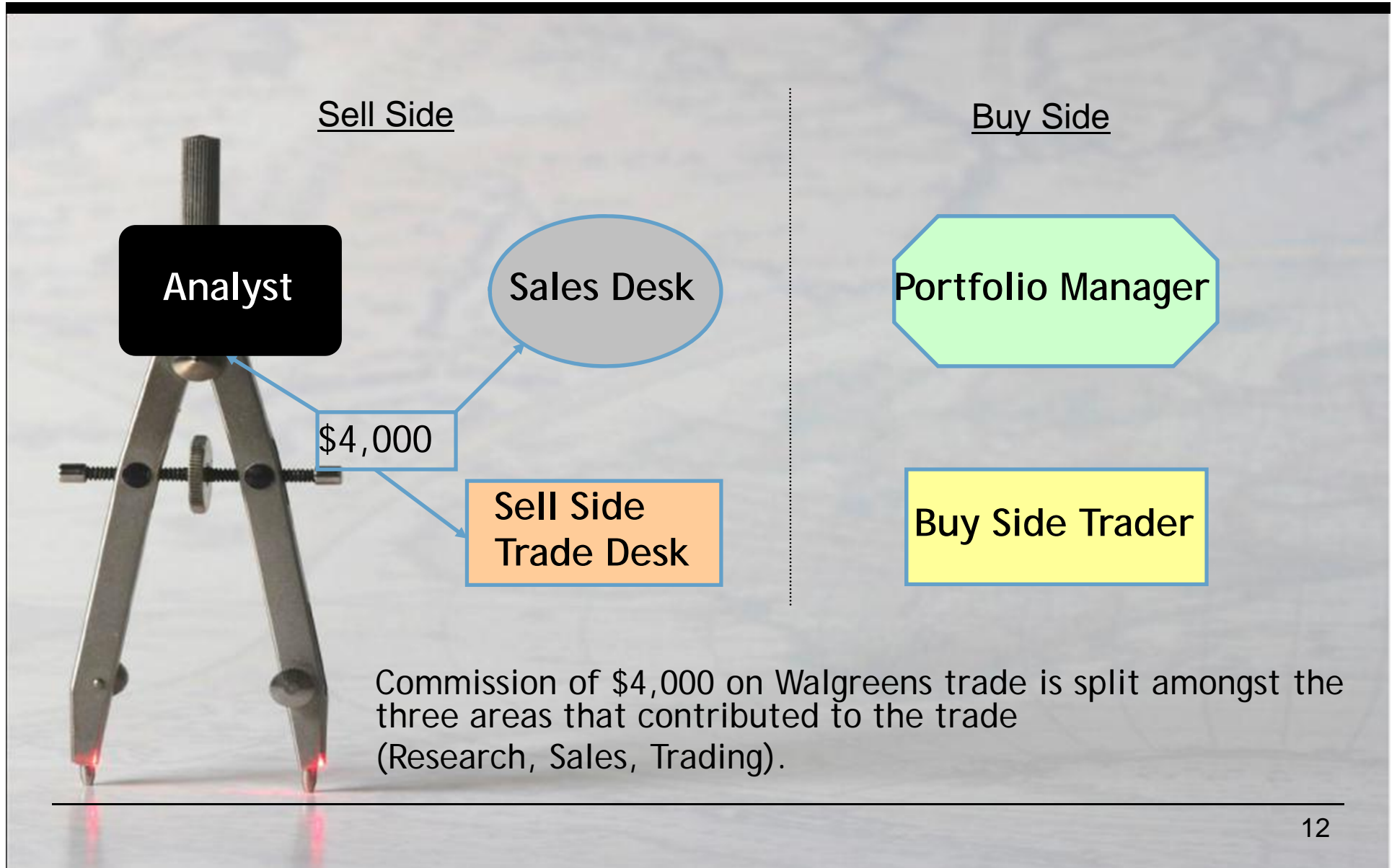
How the Sell Side-Buy Side Relationship Works




How the Sell Side-Buy Side Relationship Works



How the Sell Side-Buy Side Relationship Works





Why Can't I Get Sell Side
Coverage?
or
Follow the Money, Part I

Sell Side Coverage



- The Sell Side gets paid by commissions
- Average daily trading volume determines how many commission dollars are available
- Large and mega cap stocks have a built in advantage

Sell Side Coverage

- Mega Cap Example - Wal-Mart
 - Average daily trading volume 14 million shares
 - At \$.04/share commission rate, Wal-Mart generates \$560,000 in commissions every day
 - A middle of the pack analyst might get credit for 5% of the trades, resulting in \$28,000



Sell Side Coverage

- Small Cap Example
 - Average daily trading volume = 100,000 shares
 - At \$.04 commission rate the company generates \$4,000 per day in commissions
 - The number 1 analyst following the company, might get credit for 25% of all trades, but still only earns \$1,000



Sell Side Coverage

Conclusion: If you are a small cap company and want sell side coverage, you need compelling reasons other than commissions

- Have more and better industry information available
- Management access
- Be helpful even before you get coverage



What's With All the Hedge
Funds?
or
Follow the Money, Part II



What's With All the Hedge Funds?



- Mutual Funds
 - Paid on the basis of Assets Under Management (AUM)
 - Typical compensation is 1% - 1 1/2% of AUM

What's With All the Hedge Funds?




- Hedge Funds
 - Paid on the basis of Assets Under Management (AUM) plus a performance fee
 - Typical compensation is 2% of AUM plus 20% of the fund's profits

What's With All the Hedge Funds?

Example: Both funds start the year with \$1 billion AUM and end the year at \$1.15 billion, up 15%

- Mutual fund earns 1 1/2 % of AUM, or \$17.25 million
- Hedge Fund earns 2% of AUM, \$23 million, **PLUS** 20% of the profit, \$150 million X 20% = \$30 million
- Total Hedge Fund compensation = **\$53** million vs. **\$17.25** for the mutual fund





Is There Any Real Value to This
IR Stuff?

The Research About Investor Relations



- The research breaks down into three areas:
 - The effect of disclosure on stock prices
 - The effect of investor relations activities on stock price, and
 - Perception studies on the effect of investor relations.

The Research About Investor Relations

Disclosure - “More is better”

- Improves trading volumes
- narrows bid-ask spread

Result: decreased volatility & better liquidity



The Research About Investor Relations

Academic research on IR activities

- Mixed results
- Research does show that for smaller cap companies, increasing visibility improves liquidity, bid-ask spreads and lowers volatility



The Research About Investor Relations

Perception studies

- In the opinion of analysts:
- Excellent investor relations can benefit a company's stock price by as much as 10%
- Poor investor relations can damage a company's stock price by as much as 15%





How Much Time Do Sell Side Analysts Spend on Research About Your Company?

How Much Time Do Sell Side Analysts Spend on Research?




- The average sell side analyst follows 14 companies
- Sell side analysts spend approximately 50% of their time marketing to the Buy Side

How Much Time Do Sell Side Analysts Spend on Research?



- Assume a 60 hour work week
- $60 \text{ hours} \times .5 \text{ divided by } 14 \text{ companies} = 2.1 \text{ hours per week per company}$



To Guide Or Not To Guide,
That Is The Question

Guidance



- 90% of companies provide some form of Financial guidance
- Most common financial measures for which guidance is given:
 - Revenue 62%
 - Earnings/EPS 58%
 - CAPEX 60%
 - Tax rate 59%
 - Cash Flow 35%

Source: NIRI 2010 member survey

Guidance



- A majority of companies provide some form of non-financial guidance
- Most common non-financial measures:
 - Market conditions 70%
 - Trend information 60%
 - Industry specific 60%

Source: NIRI 2010 member survey

Guidance



- Majority of companies providing guidance specify a range, as opposed to a single number
- Preferred practice is to give guidance quarterly, as opposed to annually

Source: NIRI 2010 member survey



A Field Guide
to the
North American Analyst

The Information Vampire



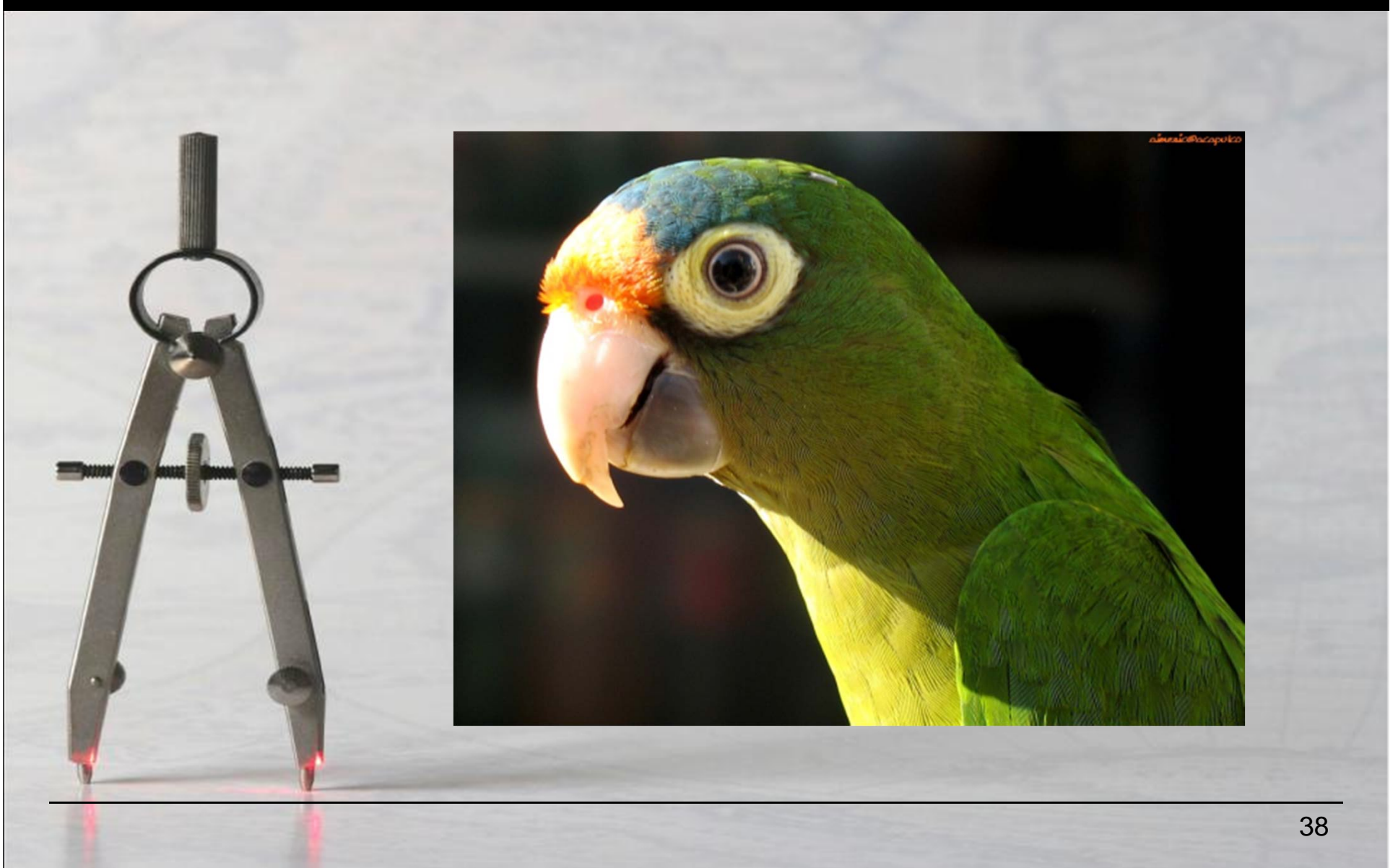
The Elephant Hunter



The Quant



The Parrot



What are the Essential Skills for Effective Investor Relations?



Essential Skills for Effective Investor Relations

- Learn to talk with your mouth full



Essential Skills for Effective Investor Relations

- Learn to talk with your mouth full
- Don't get upset every time someone edits your deathless prose



Essential Skills for Effective Investor Relations



- Learn to talk with your mouth full
- Don't get upset every time someone edits your deathless prose
- Become a master at sounding enthusiastic while answering the same question for the 100th time



Thank You