IR BEST PRACTICES:
A HIGH RETURN ON NON DEAL ROADSHOW INVESTMENT
12 RULES OF THE ROAD

IMPORTANT OPPORTUNITIES – HIGH COSTS

Executive time and company resources are rightfully devoted to investor communication of all kinds – SEC filings, website content, presentations, conference calls and investor meetings.

Few investor communication events cost more in time and money than one-on-one meetings with investors in remote cities or “non-deal roadshows” as they are commonly called.

In preparation for these meetings corporate messaging is refined, PowerPoints and information decks are prepared, elaborate schedules are organized, flights hotels, meals and limousines are booked.

In what follows we will assume pre-preparation has been flawless – schedules are confirmed travel is smooth, materials are ready, management is rehearsed. In addition, management is briefed on the institutions they will meet, the backgrounds of the fund managers, their past sector investment activity and their expected affinity for your story.

WHY CAN ROADSHOW SUCCESS REMAIN ELUSIVE?

And yet, after all these preparations are made and meetings held, executives often come away less than satisfied with the outcomes.

Nowhere is this feeling more pronounced than among micro cap companies. Sometimes there is satisfaction gained from just filling a day with meetings. “Seven meetings in one day in New York” is sometimes considered “a result.”

On further consideration, how successful was all the preparation, expense and effort? Was it worth it if:

- No lasting buy side relationships are formed;
- Company trading volume does not increase ;
- A review of 13-F filings over the next several quarters does not reveal any new shareholders from among the institutions visited on the roadshow;
- There may not even be indications of any ongoing relationship that has been formed:
    - Fund mangers have no follow-up questions
    - They do not join future quarterly conference calls
    - They are not present at your presentations at future conferences
    - Even usage of the IR portion of your website remains stagnant

Why is this? There may be many reasons but one area responsible is simply poor communication. This note provides some best practices that can help improve that aspect of the roadshow meeting.

1 INCREASE EXECUTIVE AWARENESS OF THE COMMUNICATION ENVIRONMENT

- A fund manager has agreed to meet often weeks in advance. At the time you meet, gauge her receptivity AT THAT moment. A person who is preoccupied will not be listening. Simply asking if the fund manager has time now you are here, exactly how much time they have and offering to wait while they get whatever is preoccupying them off their plate can help.

- The fund manager may have multiple agendas for the meeting. While you are trying to deliver your message she may be trying to make an impression on you! Someone who is more worried about getting HER OWN agenda across than whatever information she can gain from you will likewise not be listening. If you detect this situation, allow the fund manager to tell you about her fund, her performance, her background or her already substantial knowledge about your sector before you make your presentation. This may seem like a poor use of 10 of the 30 minutes you have been allocated. However if she is not going to listen until she has that out of the way then at least you will have 20 minutes of her attention as opposed to none.

2 AVOID CREATING EMOTIONAL TRIGGERS OR ANY KIND OF HOSTILITY

- This may seem obvious but we have seen it happen. Good preparation before the meeting about the fund manager's background is always essential, but as part of that preparation be aware of any minefields. "Well we are really glad we could come down here to Atlanta, as it happened we had to visit out subsidiary in the area anyway," may sound to a fund manager who has just moved from New York like a slight on Atlanta about which she is already sensitive. "Perhaps we'll start with the basics of our industry since I know you have just moved to investing in the biotech space," may sound helpful to you but insulting to someone who feels under pressure to justify their move into the space or is somewhat insecure about the state of their knowledge. An insecure or hostile audience is not an attentive or listening audience

3 THIS IS NOT ABOUT PERSONALITY

- A charismatic CEO is a valuable commodity for many things but not for the communication of messaging. You are there to deliver information about your company and to inform the fund manager. Fund managers are not buying charisma. Your job is to get information to them, make sure there are no gaps in their knowledge that could have been filled during the meeting and, if gaps remain, to have a clear understanding for post-meeting follow up. Fund managers will go away from an effective meeting ready to assemble their own investment case and often test the thesis out with colleagues or an investment committee. A fund manager bedazzled by your charisma during the meeting will not be able to assemble a compelling investment case.

4 DEAL WITH PAST EXPERIENCES AND PREDJUDICES

- You may arrive at the meeting already aware of an “elephant in the room” or become aware of one during the meeting. Again, homework is a key. A fund manager listening to you through a filter of bias and prejudice is not listening accurately, or maybe at all, to what you are saying.

- For example, if you have a medical device for management of epilepsy and the fund manager thinks the space is already crowded with good drug therapies, make sure your presentation deals with that issue and be particularly attentive while you are addressing it. It may benefit the entire discussion if you question the fund manager at that point of the presentation. “So I just want to make sure you are clear why our device is far more cost effective than any of the drug therapies and is likely to have a high rate of adoption once on the market. Do you have further questions about that?”

- Do not proceed until you are satisfied that the point has been cleared up to the fund manager’s satisfaction. If you move on too early she will not listen to anything else you say, or her level of skepticism will progressively increase as you make the rest of your case.

5 KNOW WHY THE FUND MANAGER AGREED TO MEET

- When setting up the meeting make sure you are clear why the fund manager is agreeing to meet and that the reason includes the possibility of future medium to long-term investment in the company. This seems simple enough but we have seen to too many occasions where poor pre-meeting background research was conducted and the meeting turned out to be a “channel check” for a fund manager that held a stake in a larger peer and would never invest in a company with a market cap of your size.

6 USE THE 4CS

- Let’s throw this in here. Those of you that know Compass also know our mantra of “the 4Cs.” Always be clear, consistent, credible and compliant.

7 IF YOU ARE GOING TO BE CATEGORIZED, MAKE SURE YOU DECIDE THE CATEGORY

- Fund managers are busy and often want to take as many short cuts as they can. Be aware that they may go away with a definition of your company in their mind. Make sure you create that “one liner” for them. If they meet a colleague in the washroom who says “who were you meeting with?” make sure you give the fund manager that answer before you leave. Don’t let them say “a(nother) micro-cap med device company,” let it be “a company with a device that replaces drug therapy for epilepsy.”

8 BE AWARE OF THE PHYSICAL ENVIRONMENT

- People who are comfortable are more attentive. This involves everything from allowing the fund manager to get water or coffee to making sure sunlight is not shining in her eyes. If you have slides in hard copy, make sure the fund manager has a copy before you start. Be quick and efficient using the equipment (check ahead if you can to see what equipment they have).

9 CHECK THAT YOUR AUDIENCE IS LISTENING

- Make sure you check regularly that the fund manager is listening. It is easy to start a presentation that you have made hundreds of times and quickly move on to auto pilot. Fund managers do not always have long attention spans. Check regularly and break up your remarks with a “so, is that clear?” or “do you have questions before I move forward?”

10 KEEP THE EXCHANGE OF INFORMATION GOING SMOOTHLY

- A difficult question is a high class problem. Your audience has revealed something about your company that they are interested in. Fund managers are not paid to be tactful, they are paid to get the information they need and make good investment decisions. Even if a question sounds like an accusation to you “so I see you are still only 30% of the way through dealing with that product recall,” answer evenly and directly.

11 HIGHLIGHT EXISTING RELATIONSHIPS AND SEEK TO CREATE NEW ONES

- People hear, retain and assign credibility to information better when they can relate it to something or someone they already know. Here at Compass we have also written in the past about the importance of triangulation – the idea that your credibility is enhanced when information you have given party A checks out when party A asks party B about what you have said.

- In another example of the value of doing your homework before a meeting, try to determine if your company and the fund or the fund manager have contacts in common. If possible, suggest parties to contact to verify assertions made in your presentation. Investors will attempt to verify your key assertions anyway so be aware if there are credible parties who hold views contrary to your own. Address why you hold the views you do and if possible cite evidence that supports your view if it differs from views held by others.

12 ALLOW TIME FOR QUESTIONS AND FEEDBACK

- One of the most important opportunities that can be missed is encouraging feedback and discussion. In practicing your presentation make sure that you can be flexible and that you have several ways of delivering your information in time slots of different lengths. That way you always have time at the end for a good summary, an opportunity to ask if the investor has reactions and questions and time to ask what follow-up the investor would find helpful.

- If possible, obtain an insight into the investor's own follow-up process. Few investors buy your stock after just one meeting so what can you expect? Obtain permission to follow up in an agreed timeframe to get further investor reaction and feedback.

ROADSHOWS ARE ONE OF THE MOST EXPENSIVE INVESTOR RELATIONS INVESTMENTS COMPANIES MAKE.

ENSURE THIS USE OF PRECIOUS SENIOR MANAGEMENT TIME AND DOLLARS DELIVERS THE MAXIMUM POSSIBLE RETURN

THE COMPASS TEAM