

Do Companies Benefit From Regular Meetings with Investors?

We often hear analysts complain that they have a hard time keeping abreast of developments in the companies they are following. Today those complaints probably have some foundation in fact when you consider how fast companies are merging with erstwhile competitors, spinning off unwanted divisions, or are forming complex alliances with domestic and international partners, alliances which affect the company's intrinsic value.

In this hectic business environment companies must work harder than usual to keep their investors and analysts apprised of what it is they are doing and how it affects shareholder value.

But how should they communicate their story to the investment community? Should companies simply hold the one obligatory annual meeting and rely on news releases the rest of the year? Or should they meet regularly, say each quarter, with investors and analysts? You would have thought that everyone would be in agreement about these issues. But apparently, they are not. There seems to be as many different opinions as there are companies.

We think an investor relations program of quarterly or thrice-yearly meetings makes a lot of sense for most, if not all, public companies. However, what we are finding is that many companies have taken on the view that, since investor meetings take a lot of senior management's time, and given that the benefits of such meetings are not always readily apparent, especially to companies new to the market, they don't have to worry about regular investor meetings. We are hearing more and more senior executives say, "*Why should I institute a regular meeting program, it's operating results and returns which really count. Such meetings are not going to increase the value of our stock.*"

So just what should companies do? Do regular meetings with investors really matter? In answering these questions we want to set out exactly what companies should and should not expect from investor meetings and in the process dispel a number of misconceptions about what such meetings and on-going investor relations programs can or cannot accomplish for public companies.

A lot of things affect the value of a company's stock, as you know. In the abstract, or considered by themselves, regular meetings with investors will not influence share prices. Earnings results, earnings forecasts, comparisons of price-earnings ratios with the competition, and the economic condition of the entire sector--it is factors such as these which influence share price. As far as we know, there is no known direct, quantifiable connection between having regular meetings and the price of one's stock.

So investor meetings do not directly affect share prices, but what they do is create relationships between senior management and investors that can help the company over

the long-term. A company that has established on-going relationships between its senior management and its investors has something that is of value. This company will have up-to-date investors, and such investors will arrive at better judgements about the company. A company with informed and up-to-date investors will usually be a company whose shares will trade at a fair price over time.

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The examples, which can illustrate the benefits of having well informed investors, are many. A well-informed analyst/investor, one who attends your regular meetings and knows the officers of your company, will not react automatically to news and market rumors. Instead they will contact the company and get the news from you. As you can imagine, this can be especially important if the news is bad or if the analyst is considering a sell recommendation. If they know you, they will call to get the real story before they do anything.

Probably the most telling example we think of is that when senior management has worked hard to establish and maintain regular contact with the company's investors and analysts, that company is much less likely to be lumped together with the rest of its sector during a bear market. If investors speak regularly with senior management, they will know first-hand how your company is different from the competition and how it can optimize performance in tough times.

To sum up: While investor meetings have no direct, immediate impact on share price performance they can have discernible long-term benefits. Investors' familiarity with the company and the relationships built up with senior management build credibility, trust, and investor interest and these will make analysts and investors more likely to stick with a company when times are bad.

But let's be clear about this point. Building relationships is important. Investor meetings educate and inform. If the news is good, meetings will help optimize the share price by making people aware of your story. But if the news is uniformly bad, just because you have an investor relations program and have on-going contact with "The Street", they will not save your stock.

So this is what investor meetings can and cannot do for your company. This much is clear. Lets look at this whole matter from a slightly different perspective, one that will state more strongly the case we are making for investor relations programs. We have looked at the debate among investor relations executives of public companies about the exact nature of the benefits which come from investor meetings. We hope that we have made very clear just what such benefits are and are not.

Our discussions with our clients and with market watchers shows that while there is debate about the benefits to be had from investor meetings, senior executives respond quite differently when they are asked the same question about the worth of investor

meetings, but are asked it in a different way. In this case the debate and disagreement vanishes.

Most officers of public companies, while unsure of the benefits which stem from public meetings, are very sure of the negative results which would result if their companies did not hold such investor meetings. The overwhelming majority of senior executives responsible for investor relations believe that not having regular investor meetings would have a negative effect on their company's share price over time.

Just why the lack of certainty about the benefits of investor meetings disappears when the issue is put this way should, we suppose, be clear. In effect, what a company is doing

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when it holds investor meetings is marketing itself and its management just as they would market their products. In sales and marketing face to face contact is essential, nothing can replace it. Regular investor meetings build the contacts and the credibility with critical audiences every company needs. The CEOs and senior executives are adamant about the worth of investor meetings when they focus on what life would be like without them. A point to note in this context is that a company reducing the number of investor meetings could be interpreted as a company that is trying to hide unwelcome news.

So our conclusion is the same, however you look at the issue - however, one puts the question about the importance of investor meetings. These meetings are one of the most important means of communicating information and building support for management among investors. To limit them to just what is required by the regulations and no more denies analysts and key investors of the chance to meet and get to know senior management. Such a move denies the company's key audiences the information that comes from regular contact on a personal level. A high-level commitment to a regular investor meeting program is in the interests of both the company and its shareholders.

28 SPRINGWOOD CRESCENT, MARKHAM, ONTARIO L3R 3Z9
TEL: 905.479.6333 FAX: 905.479.8506
WWW.MACCOMGROUP.COM



MacInnes Communications Group Inc.