

# MEETING ANALYST & SHAREHOLDER DEMANDS TO PRODUCE AN EFFECTIVE ANNUAL REPORT

By Ron MacInnes,  
President

No element of your company's investor relations program requires more energy, time or money than the production of your annual report. That's a direct reflection of the singular importance of the annual report as both a financial document and your company's premier marketing document.

Quite simply, no other single company document carries greater weight and greater meaning for all your key publics.

But just what do these audiences actually think of annual reports? What do they find most important about them? What appeals to their interests most?

At MacInnes Communications Group, we've surveyed the field and brought together those insights with the experience we've gained preparing dozens of annual reports for our clients as well as the results of surveys conducted by various professional financial organizations.

Starting from that mass of information, we boiled the key elements down to focus on the perceptions of two of the most important target audiences for any company's annual report: analysts and shareholders.

Let's start by looking at the analyst's perspective.

According to analysts, effective annual reports have a number of critical elements in common:

First, they make key financial data immediately accessible through well-laid-out financial highlights. The financial highlights are the first place analysts and brokers turn to for an immediate snapshot of your company's recent growth and an indication of potential growth in the future. The best way to succinctly capture this information for readers is through highlights that rely heavily on graphs and charts.

Second, they provide a corporate profile which concisely and clearly defines the company's lines of business and its major revenue driving markets.

Third, they incorporate thorough analysis of results and insights into markets and revenue drivers into the President's message. In addition, the message includes a sense of the corporate direction for the next year. The tone of the letter should be as frank and as candid as possible, spelling out the problems, challenges and shortfalls – and the reasons behind them -- as well as the successes of the past year.

Fourth, the effective report should include an operations review that quickly explains the full corporate story using graphs, charts, call-outs, subheads, photo captions all focused on providing a clear-cut breakdown of operations to communicate information quickly and concisely. Including this level of detail, the analysts said, also ensures that they will spend time on this section rather than simply skimming over body copy. Too many reports, they said, feature walls of body copy that hide the important information contained, appearing too formidable and too time consuming to carefully read through.

Analysts also said they like to see a future orientation to the copy. Since analysts recommend a company more on its future expectations than on past performance, they are especially interested in the annual report having information that details management's vision and general plans to drive company growth.

Other information analysts consider important:

- An overall indication of how company divisions are making out within their respective markets, including information such as market share or percentage shifts in sales by category.
- Sufficient detail and clear language that leaves the reader with the overall impression that the company is honestly attempting to tell its corporate story to the average shareholder. This 'user friendliness' helps analysts in making a recommendation to purchase a stock.

Of course, the audience of an effective annual report goes beyond the analyst community to include the critical shareholder target audience

To be fully effective, the annual report must then engage a reader who, the surveys have shown, spends approximately 3.5 minutes skim-reading an annual and will only spend more time in proportion to the amount of money he or she has invested in the company.

In our surveys, shareholders said they sometimes decide to buy more shares of a company on the basis of a good annual report and often use the annual report to recommend purchase of stocks to their friends and relatives.

And, of course, potential investors regularly request a company's annual before making a decision to buy stock.

So what are these annual report reading shareholders and potential shareholders looking for?

In our research and work with shareholders, we have found that shareholders want a dynamic, captivating cover that says something meaningful about the company and what it does to grab their attention.

The average shareholder does not read the financial review section, but most read the financial highlights, proving again the value of graphs and charts to zero in on growth and provide readers with quick understanding without requiring of the past year without requiring them to analyze the data.

One of the cardinal sins in the eyes of shareholder is passive, windy language in the President's Message to Shareholders. Far too many reports fall into this trap, according to shareholders and as a result, most President's Messages are skimmed over by most readers. The moral. Use aggressive, active, crisp language and use call-outs, subheads and other graphic elements to make sure the most important messages don't get lost.

Shareholders are partial to photographs, according to the study, glancing at the highlights, skimming the President's Message and then going directly to the photos in the annual report. Shareholders said they consider photographs to be the most effective vehicle for telling the company's story, especially if they are properly captioned to explain their significance within the larger framework of the company.

Finally, a good percentage of shareholders scan the entire report and say that the use of descriptive headings and subheads in the narrative section helps communicate key points quickly and efficiently.

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

**MAC COM**

MacInnes Communications Group Inc.