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Role of the investor relations firm

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How an investor relations firm can help a company to prepare for a successful initial public offering and assume the responsibilities associated with public company status

This chapter offers an overview of the role and objectives of an investor relations firm, both during a company's pre-initial public offering (IPO) process and throughout its life as a public company.

The objectives of a strong investor relations program are to:

- create consistent, credible communications practices in compliance with NASDAQ listing rules and requirements and Securities and Exchange Commission (SEC) legal requirements;
- elevate the entity's standing as a public company to be at least commensurate with its industry positioning; and
- achieve full valuation in the public market arena.

An investor relations firm applies best practice to developing an investor relations program, just as accountants do to preparing and reporting financial statements and attorneys do overseeing corporate practice. Specifically, an external investor relations advisor provides:

- a bridge between management and the financial community to enhance management's relationship with analysts and investors;
- sophisticated guidance on key topics, such as:
 - shaping the company's message to prospective investors and the financial community;

- communicating news and events;
- determining the timing and content of disclosure, including financial guidance; and
- maximizing financial community relations;
- market intelligence, including tracking investor and analyst perceptions regarding the company;
- marketing impetus and support to increase visibility of the company's public image; and
- support for administrative tasks, such as issuing press releases, communicating with the NASDAQ surveillance team and maintaining the investor relations infrastructure.

This chapter looks at the following specific steps in the pre-IPO process and the investor relations firm's role in each step:

- establishing a messaging platform;
- publicizing an IPO;
- creating a workable investor relations infrastructure and communications procedure;
- external procedures – disclosure and marketing communications;
- first post-IPO quarterly results process; and
- post-IPO investor relations opportunities.

Establishing a messaging platform

Once the decision has been made to pursue a listing on The NASDAQ Stock Market, one of

the first steps the company should take is to build the investment case that will be marketed to investors. Working together with the investment bank selected by the company, the investor relations firm's role at this stage is to help the company (also known as the issuer) to establish a strong and accurate message positioning that can be sustained after the IPO. Although it may seem obvious, many a new public company has seen its valuation diminished because the investment package that was sold to Wall Street, and based on which investors bought IPO stock, did not match its sustainable fundamentals. This disparity becomes abundantly clear when the new issuer makes its initial quarterly results report as a public company and may be a particular concern for foreign-based issuers, which may be less familiar with the idiosyncrasies of the US investment community. An investor relations firm's primary objective during this stage is to support a new issuer's story by:

- reviewing, with management, IPO messages created by the investment bankers to ensure a messaging platform is established that accurately represents the company's positioning and opportunities;
- creating a set of reportable metrics that, together with its financial results, demonstrate the issuer's progress with regard to its strategic plan over time;
- setting guidance policy and helping a company to determine whether forward-

looking guidance should be given to investors and, if so, which financial measures and operational metrics will be used for forward-looking statements;

- coaching management on presentation skills for the financial audience;
- developing a list of questions that management are likely to be asked on the roadshow by investors and collaborating on developing answers;
- auditing peer group disclosure practices; and
- providing information, as appropriate, on roadshow meeting participants.

Many of these activities will be expanded in the later stages of the pre-IPO phase.

Publicizing an IPO

Although the SEC has relaxed rigid restrictions on media communications during the offering period for issuers, these mostly apply to larger, well-known companies and emphasize the continuation of normal course of business practice media outreach and public relations. Conducting press interviews about an IPO during and immediately after the event itself is actively discouraged - the SEC has acknowledged modern electronic forms of communication, but still carefully governs the IPO process, with the prospectus document and associated roadshows remaining the primary forms of information delivery for new issuers. Therefore, once a prospective issuer begins the IPO process, any decision made

with respect to media and other types of publicity should incorporate legal counsel.

Once an issuer is public, there are numerous opportunities outside the IPO event itself to publicize a new issuer's public status, including the first quarter reported post-IPO, the announcement of a major piece of positive news or other corporate event. An investor relations firm can assist a new issuer by organizing media outreach in conjunction with other activities at the NASDAQ MarketSite (in Times Square, New York), such as the bell-ringing that can help create more visibility for a new IPO in a crowded market. This is particularly useful for management teams not used to dealing with the press, as it can help senior staff to build media-handling skills which will benefit the issuer later. These activities include:

- coordinating with a NASDAQ representative to arrange a bell-ringing ceremony at the NASDAQ MarketSite; and
- organizing media-related activities, including developing media-focused talking points, coaching management in press question-and-answer sessions and marketing the pricing release to news outlets to create interview opportunities where appropriate.

Creating a workable investor relations infrastructure and communications procedure

During the pre-IPO phase, an investor relations firm can help a new issuer to put in place a

practical, workable internal investor relations infrastructure. This infrastructure is crucial to manage post-IPO investor relations procedures and to ensure compliance with SEC regulations and NASDAQ listing rules, including the Sarbanes-Oxley Act, Regulation FD, Form 8-K disclosure requirements and NASDAQ market surveillance rules. In addition, implementing the investor relations infrastructure should include instituting mandatory education programs for employees on the company's responsibilities as a newly public entity. An efficient communications development process should also be established during this period to support these infrastructure elements. Amid the rush of IPO preparations, new issuers sometimes neglect this step and have to fill in the gaps after the company has gone public; an investor relations firm will be instrumental in helping with most of this planning. This is particularly applicable to foreign issuers, for which an added layer of safety can be critical in ensuring continued compliance with US regulations and NASDAQ listing requirements.

Some aspects of the investor relations infrastructure are simple administrative tasks, while others demand a complex decision-making process and have significant implications that will shape the issuer's public company identity. Once all the functioning elements of the infrastructure have been established, it will be ready to go live on the first day of trading and operate smoothly in real time once public company reporting and

communications begin. Grouped by type, the elements of the investor relations infrastructure include the following.

Determining the composition of the investor relations working group to manage the messaging and disclosure process

The investor relations working group should comprise members of the issuer's management (in particular, the chief executive officer, the chief financial officer, the controller, the internal investor relations officer, the marketing communications executive and the general counsel), and the investor relations firm.

The investor relations messaging and disclosure process must include the creation of a mechanism that will keep this working group updated on the scope of company information in and out of the public domain on an ongoing basis. This mechanism is essential to ensure that communications opportunities and obligations are anticipated and developed in a smooth and timely fashion. An investor relations firm helps to:

- educate the working group members as to issuer regulations, NASDAQ listing requirements, Regulation FD and Form 8-K rules and best practice during the pre-IPO phase; and
- shape disclosure and non-disclosure planning and messaging and incorporate market intelligence on an ongoing basis once the IPO is completed.

Creating Sarbanes-Oxley compliant financial reporting systems and procedures

Sarbanes-Oxley recommends the establishment of a disclosure committee to oversee the financial control process and provide guidelines for decision making.

A company should work with its attorneys and accountants to ensure that its internal financial controls and reporting systems are Sarbanes-Oxley compliant. Furthermore, to smooth the process of reporting quarterly results as a public company, it is a good idea for a company to begin the practice of closing the books and reporting to the board as if it were a public company and creating results-related messages together with its investor relations consultants while it is still private.

The company must also create a whistleblower voice mailbox.

Creating a mechanism for responding to incoming investor enquiries

The company should set up an investor relations voice mailbox for incoming investor enquiries. It should also create a 'contact us' page in the investor relations section of its website where investors can request information and ask questions.

Assigning public company spokespeople and defining their roles and responsibilities

To keep external messaging focused and consistent, only a few key company

representatives should be permitted to speak publicly on behalf of the issuer. In general, these spokespeople include the chief executive officer, the chief financial officer, senior executive vice presidents and marketing communications representatives.

Of these, at most three (usually the chief executive officer, the chief financial officer and the internal investor relations officer, if the issuer has one) should be responsible for and involved in direct contact with analysts, investors and the financial media. During the pre-IPO process, an investor relations firm helps to:

- identify key company representatives to all external audiences;
- identify key company representatives to the investment community; and
- train spokespeople in post-IPO communications, teaching them to converse comfortably with analysts, investors and the media while reinforcing the story and preventing accidental disclosures of non-public information, including:
 - managing expectations – avoiding unintentionally creating expectations;
 - conveying strong leadership, confidence, capability and knowledge to the listener in both overt and subtle ways;
 - keeping messaging consistent over time and across spokespeople;

- understanding the dos and don'ts of speaking to Wall Street and reporters;
- fielding questions effectively while staying on message; and
- educating spokespeople on issuer regulations, SEC disclosure rules and investor relations best practice.

All other employees should be prohibited by company policy from speaking publicly and should be advised on how to direct incoming inquiries.

Establishing a disclosure policy

Both Regulation FD and Sarbanes-Oxley recommend that issuers have a written disclosure policy document; although not specifically mandated, this has become a component of investor relations best practice. Creating a disclosure policy is a project that the investor relations firm can spearhead. Such a document:

- records internal guidelines and rules for employee behavior with respect to communicating with reporters, family, friends, colleagues and business contacts;
- sets insider trading guidelines;
- communicates regulations surrounding a lock-up expiration;
- creates a process to educate employees on internal rules and the responsibilities of working for a public company; and
- for filers under Section 16 (which governs stock trading by the issuer's directors, officers and principal stockholders),

includes a gating process in which corporate counsel must approve insider transactions not governed by a Rule 10b-5(1) trading plan before they take place, based on information disclosed in the public domain.

The pre-IPO process is the time to think through the appropriate guidelines that are likely to apply to future press release disclosures. A company should consider:

- internal materiality parameters specific to the company that serve as future guidelines for when a disclosure must be made;
- for non-material (voluntary) disclosures, whether to espouse or ignore communications practices already established among the issuer's public peers; and
- the incorporation of Form 8-K rules into disclosure criteria and procedures.

Establishing a guidance policy

The decision of whether to issue guidance is a far-reaching one that will influence a new issuer's disclosure policy, its relationships with analysts and investors and its public company image. Although there is a growing trend among larger capitalization issuers not to give financial guidance, micro and small-cap issuers generally find that the lack of sufficient publicly available sector information, combined with analysts' and investors' unrelenting demands for greater transparency,

places the burden of shaping an outlook back on management's shoulders. An investor relations firm can help to sift through the factors affecting this choice, including the company's financial visibility, sector dynamics and peer company behavior. Whichever choice is made, a guidance policy that includes the following elements should be set up:

- guidance parameters, including which specific financial metrics and associated timeframes will be subject to forward-looking statements (if guidance will indeed be issued);
- a safe harbor statement that incorporates a clause indicating no duty to update guidance;
- an internal policy on updating guidance when the results appear to differ materially from the guidance issued; and
- a pre-announcement policy, which includes the identification of pre-announcement hurdles to determine whether revised guidance will be issued (some companies choose not to pre-announce unexpectedly high or low results as a policy, but this is really a viable option only for large-capitalization companies).

Setting up an administrative press release procedure

During the pre-IPO phase, an investor relations firm can help to establish press release procedures so that releases are ready

to be issued and distributed upon pricing. These procedures govern internal routing and review, attorney review, auditor review (if needed) and the appointment of the person responsible for company sign-off. An investor relations firm can draft or edit drafts of such releases, as the company prefers. Once the release has been finalized, the investor relations firm will handle the NASDAQ MarketWatch alert, issue the release to the newswire and distribute it to analysts and investors.

External procedures – disclosure and marketing communications

Once the internal investor relations infrastructure has been established, a robust external communications program can be created. Ideally a company should complete this phase by the time of the IPO pricing so that the program can be fully implemented once the stock begins trading. As a preliminary step, the investor relations firm will take the following steps.

Perform an audit of the investor relations practices of companies in the peer group

This includes looking at:

- disclosure and guidance policies;
- reportable metric sets;
- earnings release dates and conference call times;
- conference call protocols and content;
- tone, content and frequency of press releases;

- use of website for financial audiences;
- information kits and fulfillment procedures; and
- participation in brokerage-sponsored conferences.

Begin developing an investor relations calendar

The calendar will contain the following events:

- quarterly reporting dates;
- board of directors' meetings;
- appearances at industry/investor conferences;
- quiet periods;
- insider trading black-out periods;
- analyst/investor roadshows; and
- trade shows.

Develop collateral materials

A well-crafted set of collateral materials is an integral component of a strong investor relations program. These materials create visual images that reinforce the story, support investors' conceptualization of the company's strategy and help to achieve legal compliance. The primary elements of collateral materials are:

- the investor relations page on the company's website;
- a two-page factsheet;
- the investor kit; and
- the investor presentation.

The investor relations firm guides the company through the development of the following.

Investor relations page on corporate website

There is no need to spearhead the development of or maintain the investor relations section of the website in-house - there are several providers who can do this and the investor relations firm can help a company to choose one. The provider and the investor relations consultant can help the company to develop required and discretionary content for the initial launch of the investor relations page and the addition of content thereafter. Such content should include:

- a corporate governance section – regulatory and NASDAQ guidelines mandate an explanation of the composition of the board of directors and its committees, identification of outside directors and the inclusion of a code of ethics and other governance documents;
- Sarbanes-Oxley Regulation G, which defines disclosure rules with respect to generally accepted accounting principles (GAAP) and non-GAAP information, for which compliance can be achieved by posting reconciliations on corporate websites;
- chief executive officer and chief financial officer certification of financial statements in accordance with Section 302 of Sarbanes-Oxley, which can reinforce investor confidence;
- disclosures of insider transactions;
- a web enquiry page allowing investors, particularly retail investors, to request more information from the company;

- the company's SEC filings, which can be efficiently distributed through the investor relations web page;
- other investor information – the investor relations page can serve as a superior delivery method of other relevant company information, such as historical stock prices, dividend reinvestment programs and transfer agent contact information, as well as the company's corporate profile and investor factsheet;
- a section on frequently asked investor relations questions, which contains certain standard questions that are found on almost any issuer's website, as well as company and sector-specific questions that will be pertinent to the company's shareholders and relevant corporate events. The investor relations firm can help determine the question and answer set; and
- a list of events, quarterly webcasts and upcoming and past conference and trade show presentations, which should be added after the quiet period.

Factsheets

A factsheet is an attractively laid-out, one-page double-sided verbal snapshot of a company which states the investment case and lays out statistics vital to the investment decision-making process. It is intended to be updated quarterly, as well as to reflect any significant event (e.g., an acquisition or senior

management hire), and therefore has a fixed shelf life. The investor relations firm creates this document, ensuring that it fits with the story told by the company's post-IPO marketing roadshow.

Investor kits

A new issuer's profile within the investment community can be raised with the creation of an investor kit. Kits provide packaged information about the company and are used to educate marketing targets and spark interest in a potential meeting with the company's management after the IPO. This kit should also be made available electronically through the investor relations page. The investor relations firm will guide the company on the contents of the kit, which can include:

- the factsheet;
- recent SEC filings;
- recent press releases;
- financial releases covering four quarters;
- pertinent news articles; and
- other marketing materials.

Investor presentations

After the IPO, the company's investor presentations will need to evolve with its story, its strategy and the passage of time. Investor presentations often serve as the backbone of an issuer's messaging and should be developed with the help of the investor relations firm.

Create an investor relations contact distribution list

The last element of the external communications program is the investor relations distribution list containing analyst and investor contacts. This database enables timely delivery and notification of news to the company's most important Wall Street contacts and it is important that it is put in place immediately after pricing so that this audience can begin receiving news about public company developments. The investor relations firm spearheads this project and the distribution list contains:

- key sell-side contacts - while investment banking analysts include the company's story in their research, other influential analysts who cover the issuer's peers are likely eventually to be interested in covering that company as well. Cultivation of such relationships can begin from the first day as a public company. The investor relations firm targets these analysts and includes them in the contact list;
- key buy-side contacts - during the IPO roadshow, the issuer will meet numerous investors, many of which will buy stock during the IPO and some of whom will wait to evaluate the company's performance on the after-market. It is critical to maintain close contact with these new and potential investors and keep them updated on corporate events. In addition, the investor relations firm will identify other suitable buy-

side targets for potential future investments, including peer and sector holders, and include these in the contact list; and

- other contacts - the contact list also offers an efficient disclosure dissemination vehicle for other important corporate contacts, including members of the board of directors and the company's venture capitalists, investment bankers and attorneys. The investor relations firm will help the company to identify and include suitable contact on the list.

First post-IPO quarterly results process

A NASDAQ issuer's first quarterly results report usually represents its first real disclosure event as a public company, so it is crucial. Investors often look to the first quarterly results release as a validation of their investment in the IPO and a determining factor in their continued shareholding. Therefore, this event acts as a state of the union address, setting the tone for the new public company's story, establishing its future plans and identifying associated milestones and catalysts to reach corporate objectives. Particularly for non-US issuers, this event firmly fixes the issuer's intention to communicate in a robust fashion with the US investment community. The investor relations firm is well placed to help the company prepare for this important post-IPO event. The investor relations firm will:

- schedule the quarterly conference call and webcast and issue an advisory of the call to the newswires and contact distribution list;
- review and analyze the quarterly results and strategic progress to be reported against internal and external expectations during the IPO process, as well as the quarterly performances of the company's publicly traded peers;
- develop messages and metrics from these analyses that accurately describe results, strategic development and successes as well as challenges, and provide any necessary bridging between roadshow expectations and actual results and business trends to be reported;
- draft and edit quarterly results releases and conference call scripts for all management speakers, develop webcast slide content and draft potential questions that the company's management may encounter from the investment community during the conference call, as well as answers to them;
- rehearse the delivery of the script with management and practice questions and answers to ensure that the team is comfortable delivering the messages and speaking in both scripted and impromptu situations;
- issue the results release to NASDAQ MarketWatch and newswires and conduct the call and webcast; and
- gather and analyze feedback on the conference call from call participants and determine which messages resonated with analysts and investors, where messages can be made clearer and what opportunities can

be captured during future calls, all of which will be presented in a written report.

Post-IPO investor relations opportunities

Once the issuer has completed a NASDAQ listing, the investor relations firm will take on the management of the company's investor relations program. Since up to 40% of a chief executive officer's time can be taken up with the responsibilities relating to the company's public status, having a resource in place to strategize, prioritize and keep this process running efficiently can be invaluable, particularly for foreign-based issuers. After the IPO the following investor relations activities are important.

Messaging and communications

After the IPO quiet period, the key messages of a NASDAQ issuer's story and slide presentation may need to be modified from a transaction sales approach to an educational and strategic positioning approach. In addition, the story should be updated to include any issues raised by investors during the IPO roadshow, as well as news reported since pricing, and should be modified over time to include corporate milestones and major corporate events. The investor relations firm will collaborate closely with the company's management on this task, incorporating first-hand knowledge of Wall Street's perceptions to date, as well as information about competitors' and peers' strategic progress to keep the company's investment case and supporting collateral

materials fresh, relevant and in step with the strength of its fundamental performance.

Investment community outreach

At some point after the investment banking research analysts have begun research coverage after the company's NASDAQ IPO (generally 40 days after pricing, although sooner in some cases), the responsibility for investment community outreach will begin to transfer gradually from the investment bankers and research analysts to the issuer. An investor relations firm will support the company in building up a robust outreach program in the following ways.

Helping to field incoming inquiries from investors

Both institutional and retail investors are likely to request more information on the company's strategy, reported results and other corporate developments. An investor relations firm can help to handle both the volume and the complexity of these requests, prioritizing them to direct the most important ones straight to the investor contact in the management team and fielding simpler requests on its own.

Marketing the company proactively after the IPO

It is integral to any strong investor relations program that the company's management

visits analysts and investors face to face.

Although the analysts covering a company will invite members of management to investor conferences and non-deal roadshows, most investors respond positively to marketing trips conducted under a NASDAQ issuer's own auspices, without the attached institutional sales obligations inherent in a broker-sponsored roadshow. Further, one-on-one and group marketing helps to raise visibility and build relationships with new sell-side analysts. Much like IPO roadshows, these marketing trips are usually exciting but exhausting. An investor relations firm will assist in these efforts by creating target lists, pitching meetings and setting up itineraries to meet with existing and potential new analysts and investors, arranging the trip to leverage management's time as efficiently as possible.

Managing the investor relations calendar

As a rule, a NASDAQ issuer should interact with Wall Street roughly once every six weeks in some form to maintain strong visibility with the investment community, enhance Wall Street's perception of the vitality of the story and keep the investment case moving forward. An investor relations firm can manage this process by maintaining a calendar of the following events:

- quarterly results releases and conference calls;
- non-financial news releases (e.g., new business wins, corporate events);
- investor conferences;
- marketing roadshows;
- trade show appearances; and
- media stories.

Conclusion

The practice of excellent investor relations blends financial statement and valuation analysis and disclosure regulation compliance with the arts of communication and strategic planning. The pre-IPO phase is the right time for the company's management team to make sure that it is ready to take on the significant added responsibilities and time demands that it faces once the company goes public. An investor relations firm is the company's ally in preparing and supporting these efforts.

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