

The CEO Series

Issue #1



Why IR (Investor Relationships) Matters!

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The CEO Series

Why Does IR Matter?

Investor relationships matter because the best possible way to attract and maintain long-term shareholders is to meet with institutional investors face-to-face. The “human touch” can make all the difference in attracting the type of investors that can drive sustainable value.

Ever read the script of a play? The plot and the words can be poignant, funny, sad, or angry. But you won't get the real impact of the play until you see it in person. The actors breathe life and meaning into the words with their voices, their movements, their intonation, their emphasis and their emotions. That's where the entertainment value, the story, and the lessons that the author wishes to impart get delivered. In addition to delivering scripted lines, the actors' non-verbal communication cues bring color, depth and real understanding of the story.

The same paradigm applies in the business world. Rarely is a product sold strictly through collateral materials. Dedicated salespeople interfacing with their customers' face-to-face delivering product knowledge, support and validation of the buying decision is how products, by and large, are sold.

One of the leading responsibilities of CEOs is to consistently drive shareholder value. They are hired to bring their skill sets to bear on devising and executing strategies that will expand their respective enterprises by increasing sales, margins and profits.

CEOs are the primary salespersons for their company shares to the national investment community. **WHAT** CEOs say to “the Street” will become the



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benchmarks on how they will be judged by investors going forward. **HOW** CEOs say what they say can profoundly impact shareholder value. It's not what CEOs **SAY**, it's what the investors **HEAR!** **HOW** CEOs say what they say has a dramatic impact on what their audiences hear.

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Investment professionals crave corporate leadership that can articulate a sound strategy, deliver the results that the strategy calls for, and maintain an ongoing dialogue to address concerns and questions going forward. Is the strategy believable; is it achievable? Press releases, quarterly conference calls and investment conference presentations are great opportunities to keep “the Street” apprised of what is going on at the company. However, in this highly interconnected electronic era, where virtually all information is available with a handful of key strokes, we have lost an important component in decision-making. We have lost the “human element” and the opportunity for validation that it provides.

Why does IR (Investor Relationships) matter; because the best possible way to attract and maintain long-term shareholders is to meet with institutional investors **FACE-TO-FACE**. Body language, facial

cues, tone of voice, reactions to questions, etc. all help a potential investor size-up who they are talking to. While some people are great actors – which is why we have con men – the vast majority of people in the investment community can spot a fraud or a solidly performing executive in a brief personal encounter. The “human touch” can make all the difference in attracting the type of investors that can drive sustainable value.

Regardless of the leading-edge nature of a company's products or services, what institutional investors are really buying is **MANAGEMENT**. They are **INVESTING** in the people running the business, because that is where the value resides. It's great to have state-of-the-art products; but if you don't have a strategy, the marketing capabilities, the commitment to research and development to keep you ahead of the curve, and the management team that can orchestrate the expansion of the enterprise, you've got **NOTHING**. A widget is just a widget without the experienced and resourceful management team that can get the product sold, and profitably at that!

Like the audience at the theater, meeting with the CEO brings to life the value proposition of the company's products and the investment opportunity that their stock represents. Potential new investors want to hear a story that is believable and achievable. Institutions have heard every “blue-sky” story imaginable.

While institutional investors tend to be generalists to a greater degree than they are specialists particularly in the mid- to small-cap market segment, they understand in a broad sense what can and cannot work in terms of growing a business. They've been around the block more than a few times; and that also goes for the seemingly very young people that work in the money management industry today. What they want is validation; that their quantitative work and the conclusions that they've reached based on that work are matched by the character, and the track record of the executive behind the company. They can spot a fraud relatively quickly; and once they do, that avenue to a potential new investor is closed for a long time to come.

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The audience of institutional investors that operates in the small-cap space (under \$1 billion in market cap) is finite; it's “a small world.” They talk among themselves, they network with others in the business and they share investment ideas. They talk about management talent and/or the lack thereof. It's not worth being anything but above board, realistic, and believable.

It's important to note that a major component of a stock price is the investment community's perception of the company's management team. If a CEO is unwilling to take the time to personally "market" the investment opportunity that his or her company represents, they are not fulfilling their responsibility to their shareholders.

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It is unfortunate to see smaller cap companies trading at depressed P/E multiples, with accelerating revenues and, in many cases, net income, simply because management is not committed to going out and meeting with investors.

The numbers do not always tell the story. In the mid- to small-cap market segment the efficient market hypothesis is wrong more often than it is right. It's important for management to get out and "press the flesh." Like politics, investors are buying people, their

character, and their stump speech. The best way to attract voters (institutional investors) is by "shaking hands and kissing babies."

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This is where sustainable shareholder value is generated. It isn't the easiest way to generate new investors, but it clearly is the most effective way to drive value.



About Lytham Partners, LLC

Lytham Partners provides expertise and guidance to small-cap companies in the healthcare, technology, services, agricultural, industrial, aerospace and defense segments, as well as the consumer and capital goods industries. The firm is dedicated to generating substantive communications programs with an emphasis on developing management credibility via data, clear articulation of achievable strategic plans, and timely interaction with investors.

Expertise and Guidance for Small-Cap Companies

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