

IR Insight

*Prepared by Tokyo consultancy
Investor Impact, Inc., IR Insight
provides analysis about the latest
IR trends and recommendations
on communications strategies that
positively impact corporate value.*

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■ Key Topics at the 2012 NIRI Senior Roundtable Conference

IR Insight is a periodic publication of Impact Investor, Inc., a Tokyo-based, investor relations (IR) advisory company, covering the latest global developments in IR. The views expressed herein are based on our research, a broad range of other information sources, and our accumulated experience and are intended solely to keep our clients and other associates abreast of the latest trends in IR.

In this issue, we summarize the main points covered at the annual U.S. National Investor Relations Institute (NIRI) Senior Roundtable Conference¹ held from November 28 through 30, 2012.

The principal topics covered at the most-recent conference were as follows.

- (1) **Measuring and evaluating IR programs.** What methods do IR professionals and members of corporate management use to assess the value of IR activities?
- (2) **What cutting-edge IT Media should IR departments use next? IR officers (IROs) have been cautious in making use of social media because of possible Regulation Fair Disclosure (FD) consequences, but this is changing.**

¹ Attendance at the annual roundtable conference is limited to NIRI members with 10 years or more experience in IR. Staff members of Investor Impact and its predecessor companies have been members of NIRI since 1986 and actively participated in the Senior Roundtable Conference since 1996. Increasingly, the NIRI roundtable is playing a leadership role in the IR profession and providing guidance to the U.S. Securities and Exchange Commission (SEC) and other public and private institutions on the proper course of development of investor relations (IR) practices.

- (3) Drawing on information gathered from frequent contact with investors, IROs can help to support communication between investors and board members.** Particularly as Japanese companies elect more outside board members, the IR department will have a growing role in keeping boards informed about opinions in the investor community.
- (4) Competitive research and intelligence.** The IR department is also likely to see its role expand into capturing and distilling information from the financial community, competitors, and others. But as one speaker put it, “The quantity of information is exploding, but what matters is whether it is robustly and systematically analyzed, and then distilled into impactful insights.”

In the following sections of this issue, we focus on the first two points: measuring IR effectiveness and the growing role of social media in IR.

Testing the Effectiveness of IR

Just prior to the 2012 NIRI Senior Roundtable, NIRI conducted an electronic survey of Roundtable members and buy-side (institutional) investors. Combining these 2012 survey results with the findings of a similar study in 2011, some of the key conclusions about assessing IR program effectiveness that Japanese companies may find useful are as follows:

- More than 70% of Roundtable respondents indicated that their companies set specific goals and objectives for measuring the success of their IR programs and updated these at least annually.
- Close to 90% of Roundtable respondents were opposed to using company share price as the principal measure of IR program success.
- About 80% of Roundtable respondents preferred a combination of both quantitative and qualitative measures, while 17% preferred purely qualitative measures, and only 3% wanted purely quantitative measures.

When asked to name the five most-important metrics for measuring an IR program, Roundtable respondents voted for the following, in order of frequency:

1. Relationship with financial community
2. Feedback from the financial community
3. Valuation of company stock relative to peers
4. Qualitative assessment of senior management (CEO, COO, CFO, etc.)
5. Composition of shareholder base

When asked a separate question, “If you had to choose, which single metric would you use to measure your IR program’s success?” Roundtable members gave the following ranking:

1. Feedback from the financial community (about 20%)
2. Relationship with the financial community (about 20%)
3. Composition of the shareholder base (about 12%)
4. Qualitative assessment of senior management (CEO, COO, CFO, etc.) (about 12%)
5. Investor perception studies (about 11%)

When asked similar questions, buy-side investors ranked the following as the “most-important aspects of a company’s IR program.”

1. IROs are knowledgeable about their company’s business.
2. IROs are able to communicate in an informative way regarding company strategy, financial objectives, and other related matters.
3. IROs have a seat at the board table and/or can speak on behalf of senior management
4. Responsiveness and timeliness
5. IROs can maintain consistency and provide quality deliverables (qualitative and quantitative).

Similarly, when asked “If you had to choose, which single aspect is most important to you regarding a company’s IR program?,” the ranking was as follows:

1. Accessibility of senior management
2. Knowledgeable about their business
3. Communicative (regarding company strategy, financial objectives, etc.)
4. Transparent
5. Responsiveness and timeliness
6. Provides quality deliverables (quantitative and qualitative)
7. Seat at the board table and/or can speak on behalf of senior management

In the discussion regarding these research results and related topics, some of the key points made by participants at the conference were

- “We target funds with investing styles that match the characteristics and strategy of our company, and then follow the increase/decrease in their shareholdings in our stock.”

- “Similarly, we set goals for our shareholder composition, target those types of investor we want to hold more of our shares, and then follow data on shareholder composition to see the results.”
- “We follow turnover in our shares and then correlate that data with IR events, such as earnings announcements, etc.”
- “We also follow the weighted average holding period of our major shareholders to judge their reactions to ongoing company performance and other factors.”
“After meetings with investors, we follow up to be sure the points we made were understood and to find out what additional information investors want. We do this directly and not through the sell-side or buy-side so that we can get the true story and keep records of how we are doing.”
- “One measure of return on IR might be the decrease in time that the CEO and CFO must spend on the road talking to investors. More-impactful IR activities can save their valuable time.”

Investor Impact Commentary

With the industrializing countries continuing to grow even during times of global economic weakness, global markets for virtually all kinds of goods and services are expected to expand well into the future. Along with global economic expansion, the competition for capital will grow more intense.

The issue for IROs in Japan will be how to capture the attention and attract the funds of investors around the world. In other words, IR departments will have to implement IR programs to generate the maximum results with their limited budgets. Or, alternatively, IROs may discover that the return on IR is high enough, as measured by lower cost of capital or other IR key performance indicators (KPIs), to allocate additional resources to IR activities.

Drawing on the Power of Social Media

Judging from presentations and comments of NIRI Roundtable participants, U.S. companies are gradually expanding the types of social media they use and the frequency of usage. Many comments suggested that U.S. IROs who are using social media more extensively are working carefully with internal legal counsel to surmount the Regulation FD requirement that material undisclosed information must be announced publicly, either before comments are posted on social media, or shortly thereafter. The best

advice for avoiding Regulation FD violations seems to be the careful monitoring of all information released by the company. Above all, postings on social media should not be considered as a substitute for 8K form filings with the SEC. The 8K is mandatory when material information is disclosed outside the framework of other SEC reporting. The best approach appears to be for the IR department to partner with the SNS team and legal counsel. This, undoubtedly, is resulting in more resources being devoted to the IR and general corporate communications functions, but more and more companies are drawing the conclusion that the expenditure is worthwhile.

Some of the key comments at the conference included:

- “We hear some IROs say that less information is better because no one is going to read it, but we believe this is the wrong conclusion. We think that we should provide as much information as possible, because really competent analysts will read everything they can find about a company before making an investment.”
- “Analysts need as much information as companies can give them to help them build their models. Social media are just another tool, another layer of material to be taken into account when the analyst is writing the company’s investment story.”
- “We are using Twitter more frequently now to inform investors about IR events, such as the issuance of earnings reports, major acquisitions, and other information. What can be included in a Twitter message is limited, but, at a minimum, we give the information in brief and directions on how to get more information.”
- “Along with the use of blogs, we have begun a series of video-logs, or “V-logs.” Beginning in 2013, we are putting out a V-log on some subject of interest to investors and other stakeholders every two weeks. We keep the time to between 7 and 10 minutes and include text as well to allow the busy analyst to skim the content. Topics include earnings announcements, major acquisitions, new product developments, meaningful corporate social responsibility (CSR) initiatives, and other information on the company that is somehow linked to shareholder value.”

Investor Impact Commentary

Recent surveys of investors and analysts show that usage of the Internet as a source of information is already extremely high. On the other hand, a survey of about 250 Japanese company English-language websites indicated that there is considerable room for improvement. Many Japanese companies apparently do not view their websites, especially the IR section in English, as an opportunity to communicate their company’s investment story to their shareholders and potential investors around the world.

Undoubtedly, broadening this survey to include social media would produce the same conclusion—more and better information is needed in all Internet media.

Specifically, one area needing improvement urgently is the management message in the IR sections of corporate websites. Many of the messages begin and end with set phrases, translated directly from Japanese, that contain little or no information for investors. In addition, many management messages are too short, less than 500 words, and do not convey the company's investment story. One way to make corporate IR more effective would be to give higher priority to the IR section of these websites.

We welcome your comments on this report.

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