

20 Fail-Proof Strategies for Turning Lemons Into Lemonade

By David C. Collins



Investor relations and management credibility are often tested during the process of handling bad news such as poor operating results, negative corporate or industry developments, or other challenges.

Forthright, clear communications about the negatives, no matter how difficult to swallow, can serve to set you apart.

This is particularly true in the small and microcap realms, where hands-on, entrepreneurial CEOs can exert substantial influence on the communications process.

The following 20 tips are designed for investor relations officers to keep in mind as they develop strategy and messaging around negative financial results or developments.

1. Get your arms around the problem. Ask the tough questions you know investors will ask and get the answers you need before you develop your strategy. Get past roadblocks created by internal politics. Blame the sharpness of your inquiries on the fact that “investors will certainly ask these tough questions,” and make sure you get the answers.

2. Develop a thorough Q-and-A to prepare for the toughest questions your disclosures will generate. Preparing for questions can be more important than the disclosure itself, and often the Q-and-A process will play an important role in further refining your messages.

3. Put the problem into perspective with the rest of the business. Illustrate the issue within the context of the entire business or division and the expected duration of the problem. Don't make investors search past releases or filings to find this perspective—put the data in your release

or call scripts. Make the process open and easy for your investors.

4. Consider whether other financial metrics would provide balance. When the profit-and-loss statement gets hurt, sometimes cash flow from operations or earnings before interest, taxes, depreciation, and amortization can help demonstrate underlying business strength. Highlight any noncash items involved, and if you have a strong balance sheet, make sure that fact is clearly represented.

5. Keep investors looking forward. What you intend to do is more important than the negative results you are delivering. Being able to articulate your plans to rectify the situation is perhaps more important than explaining how results went bad (which is also important).

6. Put the key negatives in your release and in the conference call script. Don't wait for the tough questions or hope they won't come. Assume the negatives will surface and make sure you have provided a solid statement or response on a preemptive basis.

7. Understand the importance of timing. Prompt, open disclosure gives you the best chance to demonstrate you are in good command of your business. If you wait too long (or hope things turn around and they don't), by the time you disclose bad financial news, investors will be wondering if you were hiding the issue for some time (putting you in the liar category) or they will wonder if you were unaware of what was happening in your business (also not a good place to be).

8. Get negatives out before you hit the road. This mitigates a potential surprise and lets you speak to the negatives during your marketing meetings. Unexpectedly canceling a planned road trip or conference appearance

can be a red flag for astute investors looking for “signals.”

9. Prevent the whipsaw. Often bad financial news can be accompanied by good news on other fronts. Try not to whipsaw investors with a series of positive and negative news items. Share other positive or negative issues at the same time so investors can make an informed decision based on all developments currently known to management—not just some of them.

10. Worry about maintaining your relationships—not about the share price. Face it, bad news hurts share prices, so don’t even think about the near-term impact on the stock. Focus on doing the most comprehensive job of disclosure and have confidence that over the long term, effective communications that give the same prominence to negatives *and* positives will develop management credibility and play a role in optimizing your valuation.

11. Acknowledge that safe legal disclosure is often terrible IR disclosure. IR is a tango between management, auditors, and attorneys. Limiting corporate liability by “clamming up” when performance goes south can have huge negative consequences for corporate credibility and valuations. Attorneys’ objectives are to protect their client from legal risk—not to optimize the company’s valuation long-term. Their decisions can solve one problem while creating a larger one. A good legal counsel will balance the pros and cons that are always present and will support recommendations on what achieves the best possible, risk-adjusted result. The counsel will understand a company’s need to maintain its dialogue with investors and that “no comment” is rarely an option.

12. Provide as much information as you know at the time. It may be hard to say “we do not know the answer at this time,” but that is often a true and credible statement. Investors would rather know a little today than to be kept in the dark for a longer period. When you fol-

low up with an update, you can further cement your credibility.

13. Be proactive. Don’t wait for key constituents to see the news. And don’t assume an e-mail is a sufficient alert when bad news is afoot. Senior management (C-suite) and IR staff should make outgoing calls to key analysts and investors following the formal disclosure of negative news. This demonstrates a commitment to visibility and shows the company cares about investor relationships from the highest levels. Also, you’ll drive better participation in your conference call or webcast if you hit the phones.

14. Show confidence and strength. Don’t hold back details because of “the competition.” If your competition can’t figure out what’s going on in their peers’ business, then they probably aren’t very effective competitors. Most disclosures do not extend to the granularity that could really hurt a company in its competitive realm, and, frankly, your best defense is making sure your industry and your customers know what went wrong and what you are doing about it—so your competition can’t stretch the truth.

15. Conduct a conference call or webcast to provide immediate management access. Conference calls are ideal forums to provide Regulation FD compliant updates. They should be hosted as soon as possible after the release of negative news. Just the presence of a call says that you are shareholder-friendly. Providing a transcript helps to leverage this communication.

16. Make yourself accessible afterward. Don’t drop a bomb and then “hop on a plane” or be lost in management meetings. For the 48 hours post disclosure of bad news, accessibility of management is paramount.

17. Release your news in prime time. Don’t bury the news late at night or over the weekend. Investors are going to find the release and the news. Any sign that you were trying to minimize it will hurt your credibility. Also, the wire services seem to provide extra coverage to such attempts, so it can backfire!

18. If it's important, get it into your release.

Releases have the broadest possible dissemination and syndication. A much smaller universe of investors will access your conference call or replay—so don't hide the key information there.

19. Think about timing. Premarket disclosures give much less time to complete your communications. Traders make quick decisions based on snippets of information—well before a release or calls have been fully digested. This can create volatility in your stock and further raise attention to the issues inherent in your negative report. Consider announcing negative developments and hosting a conference call after market hours so you will have adequate time to get the news out, make outreach calls, and then address the situation, including in follow-up calls, before trading resumes.

20. Think like a major shareholder. What would you want to know? When would you want to know it? And how would you like to be treated? Your investors are owners of the company, and you are working for them!

These suggestions from the IR “trenches” should help you address the situation in which you will inevitably find yourself as an IR professional. The IRO's job is to ensure that the longer-term communications strategy and outlook prevail, despite myriad perspectives, influences, egos, and other constituencies that come to bear during a financial crisis. □

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The Role of Boards in Investor Communications

By Dean Krehmeyer



John McFarlane, former CEO of Australia's ANZ Bank, once said, “Good corporate governance is about making sure stakeholders get what they can reasonably expect. Bad governance is giving them something they never expected.”

In the current economic climate, investors and the public are indeed getting “something they never expected” in the form of bad news, missed earnings, or other unanticipated risks that have come to fruition and caused damage and value destruction.

The result is that regulators, activists, and the media are calling for corporate governance reform. Investor relations officers are on the front lines, hearing those calls, but boards must also be aware of the issues—and be prepared to address them.

How Can Boards Address Bad News?

The first way in which boards can better prepare themselves to address and respond to bad news is to institute a broader dialogue with their management executives.

A second mechanism that boards can employ is to develop a greater understanding of their company's compensation incentives—not just for senior executives but also for managers throughout the ranks.

Perhaps unknowingly, or perhaps with unintended consequences, compensation incentives

What Is the Ultimate Goal of Shareholder Communications?

“The goal of shareholder communications should be to help shareholders understand the business, risk profile, financial condition, operating performance of the corporation, and the board's corporate governance practices.”

—From the Business Roundtable's *2005 Principles of Corporate Governance*.