Make debtholders part of the team

Executive summary

- Treasurers need to ensure that relationships with debt providers are integrated into their overall investor relationship management programmes.

THE NEED FOR COMPANIES TO HAVE GOOD RELATIONSHIPS WITH DEBT STAKEHOLDERS HAS RARELY BEEN MORE PRESSING. **PETER MATZA** LISTENED IN TO A RANGE OF PRACTITIONERS AT A INVESTOR RELATIONS SOCIETY SEMINAR TO FIND OUT THE LATEST TRENDS IN INVESTOR RELATIONSHIP MANAGEMENT.

While the art of investor relations has traditionally been honed in meetings with equity market analysts, brokers and institutional investors, debt stakeholders have often been the poor relations, left to the treasurer to manage as well as resources permit.

As a result of the systemic changes in debt and equity markets, that is no longer the case. In particular, the squeeze on bank lending means that treasurers will need to look across a wider range of bond and debt markets where they will be in competition with others.

Practitioners at the IRS seminar pointed out that debt and equity are being sold in an increasingly transactional marketplace. That means treasurers and investor relationship professionals need to present a united corporate front to bankers, credit analysts, fixed income investors and ratings agencies.

The advice of the seminar was that, as is the case with equity issuance, companies that need to borrow will achieve a better debt fundraising outcome from an informed, loyal and appreciative group of investors. That presents challenges in a wide range of areas for all concerned.

The terminology of the debt markets is an obstacle that treasurers will have no trouble in navigating successfully. But other corporate managers – and investor relations managers in particular – will be unfamiliar with the landscape of borrowing and the debt capital markets. In particular the concepts of secured and unsecured funding – and by extension the world of covenants (financial or operational) – will need to be carefully communicated.

The dynamics of the debt markets are also rather different to those of the equity world even though many of the institutional end-investors – at least in the UK and continental Europe – will be the same. Differences in issuance processes, documentation, the concept of maturity itself, and the attitude and motivation of end-investors will all present an investor relationship programme with a stretch to its intellectual framework.

As far as value is concerned, although there is some market crossover for valuation and pricing, the seminar made it clear that treasurers are well advised to explain the components of the cost of borrowing –cost of money, cost of credit, cost of time – to their investor relations colleagues. It is the only way to ensure an appreciation of those elements that a company can influence and those it can't!

The impact of the credit default swap (CDS) market was also discussed. Although treasurers (and the ACT) may have concerns over the relative importance of CDS, there is no doubt that treasurers and investor relations teams must be aware of the potential of these prices to cause problems during financing exercises.

Bond and debt investors and providers will be looking at criteria that are uncommon in the equity world: duration and maturities,

subordination, asset and liability management and a range of other features. There are clearly areas of common ground which all investors will consider – quality of management, peer group review, and so on – but treasurers will have to ensure that the correct messages address the needs of different investor classes.

This applies just as much when considering the relationship a corporate may have with the ratings agencies. The emphasis on free cashflow metrics may be somewhat different to looking at earnings per share or sales growth but the debt investor (and a rating) will depend hugely on the ability to service debt and repay principal – and that's not as simple as it looks in print!

The picture that emerges from the IRS seminar is that corporates need clear strategies that tie together their principles of management and interprets them in ways that meet the needs of equity and debt stakeholders. The treasurer then needs to establish with his CFO/FD and investor relations team the tactics of information management. The demands on resource and time should not be underestimated, and diaries and meetings need to be managed to ensure an even pace and flow of information. Website management can be critical to offering factual, suitably updated background for analysts.

Investor relations can be a rich and satisfying field for treasurers and they have much to offer investor relations specialists. Close co-operation and consistent methodology are the keys to successfully meeting the needs of external stakeholders.

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