A lasting double act

THE CREDIT CRUNCH HAS DONE MUCH TO CEMENT THE RELATIONSHIP BETWEEN A COMPANY'S TREASURY AND ITS INVESTOR RELATIONS TEAMS, AS **GRAHAM BUCK** DISCOVERS.

Every treasurer should be involved in their company's equity investor and debt investor relations, and never more so than when bank finance and revolving credit facilities dry up, making corporate debt raising a crucial affair.

But do debt investor relations attract the same degree of attention and corporate resources as equity investor relations? Many think the former has too often been the poor relation. Because equity shareholders can vote at company meetings, management has always regarded them as a much more important group. However, the downturn has offered a powerful reminder to companies of the importance of engaging with their debt holders on a regular basis. Unless those relations are good, a company looking to raise debt capital may find its task considerably more difficult.

So where does the group treasurer stand in this equation? "In normal times, it's probably true to say that banks and bond analysts prefer to speak to the treasurer, whereas shareholders and equity analysts speak to the investor relations team," says Jörg Pässler, the Brussels-based group treasurer of paper manufacturer Sappi. "But since the onset of the credit crunch, equity analysts have been asking far more questions about companies' debt structure and liquidity, so treasurers have found themselves getting involved in these discussions."

Sappi's successful approach to the equity market last year merited a case study in the October issue of The Treasurer. The South African manufacturer, the world's largest producer of fine paper for glossy magazines, wanted to complete the acquisition of Finnish group M-real's coated paper business, but its banking group was unable to provide a $1bn bridge loan, particularly following the demise of Lehman and the temporary closure of the high-yield bond market in Europe.

Sappi accordingly turned to the equity market and Pässler, who had traditionally focused on debt investor relations while his colleagues in investor relations looked after equity, became involved in explaining the debt and liquidity situation to equity investors.

Sappi's chief executive Ralph Boettger and his investor relations team then embarked on a roadshow to talk to the company's top half-dozen investors (who collectively owned about 60% of the total shareholding) to test whether they would provide up to 75% of the funding needed for the acquisition.

Pässler recalls: "We had quite a hard selling job, even though we had what in normal times would be fantastic developments to report: the M-real purchase plus a major expansion in South Africa and a big acquisition in Europe."

However, the sharp economic downturn had reduced demand for Sappi's products and overcapacity had ensued. As a result, Pässler says, "we had to convince investors that things would be much worse had we not made these major expansions, and get them to buy into our story".

So the investor roadshow also drew in

the chief financial officer, group treasurer and other senior personnel. "Whatever the question posed, there was an individual present who could respond with confidence," says Pässler, who acknowledges that in normal circumstances it would be highly unusual to divert these individuals from their normal duties for a whole two weeks. However, raising the funding was a serious enough issue to warrant the move.

THE DOWNTURN HAS OFFERED A POWERFUL REMINDER TO COMPANIES OF THE IMPORTANCE OF ENGAGING WITH THEIR DEBT HOLDERS ON A REGULAR BASIS.

BUILDING THE CASE. Another company whose mounting of a successful equity roadshow after experiencing difficult conditions merited a case study in The Treasurer (December/January issue) was Barratt Developments. Group treasurer Bob Williams says the company timed its approach to investors once market conditions appeared to be stabilising, following the volatile period after Lehman Brothers' demise.

"We were able to get through this period and people are now feeling their way around their new environment," Williams says. "While it would be too much to claim that they are comfortable with it, they have at least become more familiar and are seeing some signs of stability returning."

The equity investor relations and debt investor relations teams have become more joined-up as the focus has shifted to liquidity and debt management. And investors have been keen to understand and discuss the company's banking and debt financing arrangements.

Williams explains: "There's an ever more improved connection between treasury and investor relations, so that the required information is made available to all of the key individuals, and they are equipped to answer any question that investors might pose." He agrees that the "seismic shock" caused by the banking crisis and the fact that it will be long remembered mean that this closer relationship will be maintained over the long term.

But he does not anticipate a quick recovery nor an easy one. He says that the government's economic forecasting regularly proves over-optimistic and the full effects of higher unemployment have still to be felt.

"When times are tough, investors ask more questions, and we've certainly experienced this in our sector over the past 18 months as the downturn hit housing earlier than most," Williams says. "This has seen a high level of debate from equity investors on issues such as debt covenants. Companies have now been able to get their debt refinancing broadly in shape, so the focus has shifted to when their profit margins are likely to be restored."

EDUCATIONAL PROGRAMMES. While FTSE 100 companies are more likely than smaller businesses to provide the necessary resources for good investor relations and to have a dedicated investor relations officer (IRO) on board, UK companies generally win a high rating from the London-based Investor Relations Society. The IRS suggests that, due in part to the importance and influence of the London market, those best at investor relations are looked to as a model for companies in other parts of the world.

For many years the society, which offers educational programmes, has run a debt investor relations course. Its general manager, Michael Mitchell, says there has been a definite increase in interest in the past year, which he believes will continue.

"Equity IROs want to know more about debt investor relations, and we are also seeing more treasurers attend the course," Mitchell reports. He adds that since the first half of 2008, it has been evident that investors' focus has shifted markedly to how much debt is on the corporate balance sheet, and if there is deemed to be too much, what steps a company is taking to reduce it. Investors are also taking a much closer interest in the terms of debt.

"The IRO and the finance director have traditionally fronted meetings with equity investors, but are now taking more detailed input from treasurers, or actually bringing them along to participate in the meeting," Mitchell says. Treasurers are also assisting in written presentations and, conversely, IROs are becoming involved in presentations to debt investors.

Mitchell stresses that the relationship between treasurer and IRO is nothing new and has always been close, but in the past two years treasurers' involvement in preparing presentations and investor roadshows has grown more frequent. He believes this closer liaison is likely to become permanent, as many companies have grown more comfortable with raising a greater proportion of their debt from longer-term investors rather than from the banks.

IRS chairman Richard Davies is managing director of investor relations consultancy RD:IR. Isabel Richardson, who heads investor relations services at the firm's IR InTouch division, adds that the UK's investor relations market is currently more professional than even five years ago, due to the growing proportion of IROs with an accountancy background.

"More and more IR teams are taking greater control of their own roadshows," she says. "This allows them to target more appropriate investors, rather than just rely on the broker to take them to a smaller, more limited pool of investors. We'd welcome more companies following their lead."

As equity holders take more interest in the company's debt profile and refinancing options, so treasurers should become much more involved in investor relations, Richardson says. "IROs should make the treasurer available to equity holders when relevant, and the treasurer should meet their debt investors at least once a year, and not just on a dedicated capital-raising roadshow."

Pässler says Sappi benefits from the treasury and investor relations teams working closely together. Treasury provides an annual update to bond investors, but the presentation includes input from investor relations, which, in turn, values treasury input into its own presentations. "In the past two years, treasury has automatically updated equity analysts in response to the much tougher business environment," he adds. "This makes for quite a good model."

So much so that this greater pooling of resources between the two departments is likely to be maintained when economic conditions eventually improve. Pässler adds that other companies will be facing similar questions from equity analysts and will have probably also instigated greater liaison between treasury and investor relations, which they will maintain over the long term.

MANAGE THE MESSAGE. Another who believes that the traditionally greater emphasis on equity investor relations over debt investor relations has undergone a change since the downturn is Katherine Lee, partner in independent investor relations firm Bendon Lee.

She suggests that, for both IROs and treasurers, the most important tactic is to "manage the message" and to keep any news or announcement carefully under wraps until the company is fully prepared and "ready to press the button".

"Investors are looking for credibility and consistency," she says. "So keep the message as short and as simple as possible, and keep repeating it to provide them with an added level of comfort. Shareholders want a story that evolves, so you need to regularly recap and to demonstrate you are doing what you said you would."

This policy can be assisted by actively seeking input from some of the company's major equity and debt providers, and using them to test the water before making an announcement.

"There is almost an ongoing request for information by shareholders," adds Lee. "Companies that get their institutional investor relations right will have a healthy dialogue with investors and be able to deal with potentially problematic issues before they develop into major ones."

Lee suggests that too many senior executives have buried their heads in the sand since the onset of the credit crunch and have been stunned by the City's adverse reaction to bad news. "Even FTSE 100 companies haven't always been able to avoid the need to issue unexpected profit warnings," she points out.

Companies must become better at considering the impact of the news they are announcing, and the probability that if investors are surprised, the volatility of the share price will increase.

They should also be able to recognise the investors' point of view and where their loyalties lie; especially in a period when the stock exchange bull market has come to an end and shareholders are being told they have an obligation to be more active and do more than merely hold shares.

"One company issued a string of profit warnings, but was able to manage events to its advantage by slimming down its operations with investors' support," says Lee. "So it is possible to extract advantages from even seemingly adverse developments."

INVESTORS WANT AS MUCH DETAIL AS THEY CAN GET, PRESENTED IN A MANNER THAT THEY CAN EASILY COMPARE AGAINST THE COMPANY'S PEERS.

Richardson agrees that investors want transparency and consistency, adding that there may be differences between different groups. "Generally, investors want as much detail as they can get, presented in a manner that they can easily compare against the company's peers," she says. "However, pension funds tend to be longer-term investors and would therefore look for information on a longer time horizon than a short-term investor such as a hedge fund.

"Debt investors are interested in information such as maturity profiles of outstanding debt and details of outstanding loan facilities whereas equity investors, while potentially interested in the debt information, focus more on issues such as dividend strategy and long-term strategy."

Like other IR consultancy firms, RD:IR has encouraged companies to maintain their communications levels during the downturn. Richardson says: "We find it interesting that many companies have been advised by their broker to scale back their interface with investors during this time, when we know that many fund managers have been more eager than ever to learn how companies were coping with tough economic conditions. This could reflect a possible downsizing of brokers' IR teams during the crisis."

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