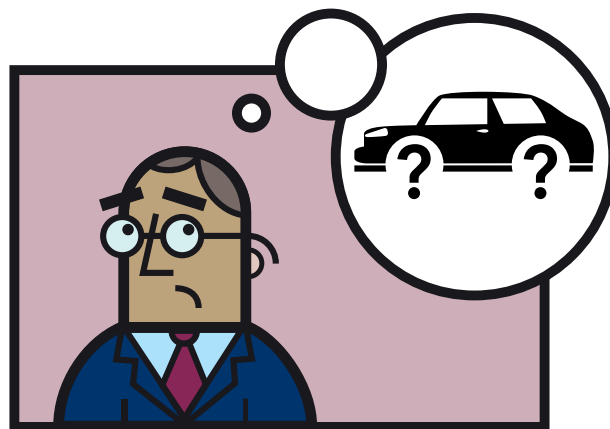


# DON'T REINVENT THE WHEEL



Treasurers who want to build a debt investor relations function should draw on the expertise that already exists in their organisation, says Gillian Karran-Cumberlege

The investor relations profession initially developed in the US capital markets and provided the interface between US corporates and their institutional equity holders. Over the past 20 years, investor relations has become an established function globally, although with differing levels of maturity.

Debt investor relations was much slower to evolve than equity investor relations. While companies have cared deeply who is holding their equity, the relationship with debt investors was more distant. Traditionally, the reporting requirements associated with servicing debt investors have been less onerous than those associated with equity investors, and debt investors were also historically less demanding than their equity counterparts. But the financial crisis of 2007/8 brought about profound change. Systemic pressures focused attention on access to liquidity and the subsequent low-interest-rate environment made debt funding attractive, particularly for strong corporate names.

Since 2008, most large quoted and some unquoted companies have established a debt investor relations capability. As a consequence, the specialist skills and expertise associated with debt investor relations are increasingly recognised.

## The goals of investor relations

As a working definition, investor relations is the corporate function that provides investors with the information they need to make investment decisions. Investor relations (both equity and debt) clearly has financial goals related to a fair valuation and reducing the cost of capital and funding. There are also broader reputational benefits of an effective investor relations programme.

The debt investor relations function exists to service the requirements of fixed-income investors. Communication with investors must be within the appropriate disclosure requirements while communication to various stakeholder groups must be consistent. Discrepancies between what is communicated to debt and equity investors will be rapidly identified by the market.

Experienced CFOs and treasurers recognise that for a large quoted corporate in particular, there are multiple points of contact with the capital markets. It is important to ensure consistency of message across all investor groups. The simplest way of achieving this is for one team to be tasked with producing the core investment message. This material will then be used as the main building block for all communication with key investor groups, particularly those set out below:

- ◆ Institutional equity investors;
- ◆ Institutional debt investors;
- ◆ Retail equity or bond investors;
- ◆ Employee shareholders;
- ◆ Bank lenders;
- ◆ Commercial paper investors;
- ◆ Financial journalists; and
- ◆ Rating agencies.

## Debt investor relations functions

There is no hard and fast rule as to what size of funding programme warrants a dedicated debt investor relations function. For companies that are infrequent issuers, it is typical and most economical for the treasurer and treasury team to manage the issuance process and also to act as the point of contact for investors.

For more frequent issuers, however, there are two key considerations to be taken into account:

- 1 Has the issuance programme grown to a scale that it requires dedicated resource to handle the interaction with debt investors?
- 2 Can a dedicated debt investor relations team contribute to a more effective issuance programme, thereby improving access to the markets, as well as reducing the cost of funding?

If the answer to either question is yes, then the treasurer should consider creating a debt investor relations function.

## The transferability of equity investor relations expertise to debt investor relations

Frequently, the debt investor relations function will be established within an existing equity investor relations function.

## GOALS OF INVESTOR RELATIONS

SPECIFIC FINANCIAL GOALS	BROADER COMMUNICATION GOALS
A fair market valuation	Raising of corporate awareness
A reasonable level of liquidity in the company's equity and debt	Enhancement of corporate image
Easier and cheaper access to capital and funding in future	Generate premium
Stable share price and investor structure	Strength of brand
Takeover protection/flexibility to acquire	Strategic endorsement

SOURCE: FIDELIO PARTNERS

A debt investor relations programme must have the technical expertise to address the specific questions of fixed-income investors relating to the instruments that they have invested in. There are, however, some similarities between debt and equity investor relations. All investors have an interest in the health of the company, so both debt and equity investor relations need to present an investment case for the company and not just the underlying securities. Thoughtful investors will be interested in the overall capital and funding structure of the company.

If skills, experience and processes are already in place to service equity investors, the treasurer should look to equity investor relations as a starting point and avoid reinventing the wheel.

### Deliverables for debt investor relations

The deliverables for debt investor relations include:

- ◆ Servicing the information requirements of existing fixed income investors;
- ◆ Marketing of new debt issues. This includes preparing materials and also participating in road shows;
- ◆ Building up long-term and non-deal relationships with key investors;
- ◆ Building up an understanding of the potential investor universe. This can support decision making on corporate finance and capital market activity. It can also provide the basis for investor targeting; and

- ◆ Providing internal education to colleagues about the debt markets and debt investors where appropriate.

### Skill sets

Based on the above criteria, the treasurer establishing a debt investor relations function should seek the following skills:

- ◆ A technical understanding of the debt instruments that have been or are being issued, as well as a working understanding of the debt capital markets. This includes an understanding of the regulatory framework;
- ◆ The ability to answer a range of questions relating to corporate performance and creditworthiness. A key element is a firm grasp of financial reporting;
- ◆ Communication skills. An important aspect of the debt investor relations role is the ability to communicate complex messages;
- ◆ Strong interpersonal skills; and
- ◆ The ability to be a team player.

Effective debt investor relations will require collaboration across a number of functions.

Regardless of the reporting line, debt investor relations requires very substantial input from the treasury function. Thus there needs to be a dotted reporting line or at least a very open and effective relationship between debt investor relations and treasury. This works most smoothly when investor relations and treasury are both part of the finance function. When investor

### TYPICAL KPIs TO MEASURE INVESTOR RELATIONS PERFORMANCE

KPI MEASUREMENT	RANKING
Interaction with management	29%
Quality of investor meetings	26%
Message absorption/quality of sell-side reports	24%
Investor outreach/number of meetings	24%
Company stock performance in a given year	23%
Ability to attract new investors	18%
Quality of investor base	15%
Number of analysts covering the company	9%

SOURCE: BNY MELLON, GLOBAL TRENDS IN INVESTOR RELATIONS, OCTOBER 2011

relations sits within the communications or corporate affairs function, the flow of information can be more problematic, so more thought needs to be given to promote cooperation.

### Measuring the success of debt investor relations

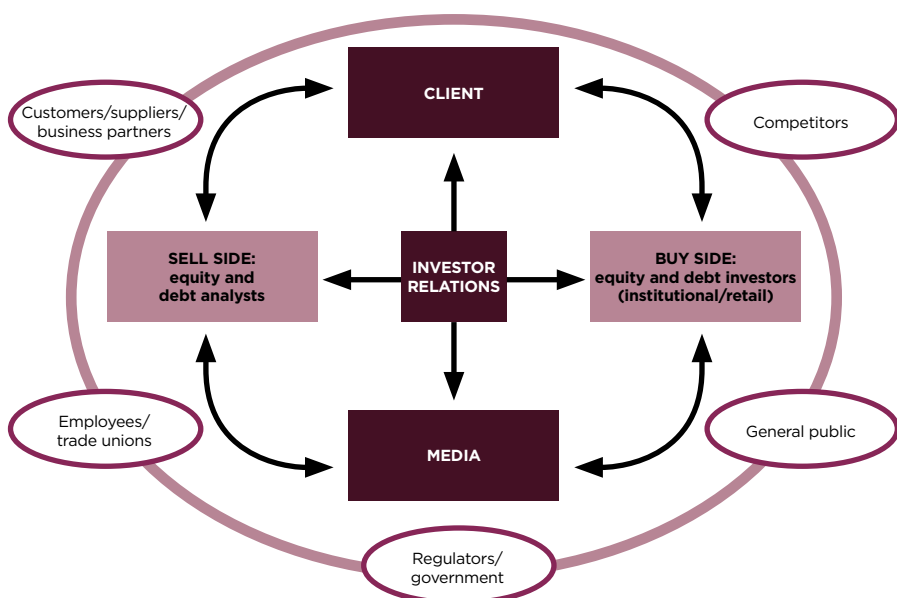
It can be hard to measure the contribution of the debt investor relations team, but a roster of key performance indicators (KPIs) has been developed for equity investor relations, which we consider to be broadly applicable to debt investor relations and which we set out in the table above.

The KPI relating to stock performance can be replaced by metrics relating to maintaining the attractiveness of the corporate's debt in the market. The other metrics offer a simple method of monitoring performance and provide relevant tools for promoting effective and professional debt investor relations.

### Conclusion

The debt investor relations function plays an important role in ensuring sustainable access to the debt capital markets and thereby improving the cost of funding. Debt investor relations draws upon a range of skills and relies on input from a number of internal departments to be effective. The treasurer who is looking to establish an effective and professional debt investor relations function does not need to reinvent the wheel.

### INVESTOR RELATIONS IS A COMPLEX DISCIPLINE



SOURCE: FIDELIO PARTNERS



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