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What Drives Analysts Crazy? Ten Best and Worst IR Practices for Working with Sell-Side Analysts



Brian Pittman's exclusive interview this week: Jeffrey S. Cohen, Senior Research Analyst, C.K. Cooper & Company

Not surprisingly, analysts can often be outspoken—and C. K. Cooper & Company's Jeffrey Cohen is no exception. As the senior research analyst in the full-service investment bank's healthcare research department, his honesty, professionalism and willingness to share best and worst practices are exemplary. So much so, in fact, that he recently spoke April 6th at NYC's Yale Club on the topic of "Attracting and Working with Sale Side Analysts" at the CCG-MZ IR Global Rankings conference.

Cohen has a strong background analyzing both debt and equity securities in the \$2 trillion U.S. healthcare industry, including complex scientific data and developments specific to medical devices, capital equipment, technology and diagnostics. For the past three years, he has developed and presented detailed fundamental analytical reports and financial models for more than 14 publicly traded and privately held medical technology companies with over \$8 billion in aggregate market capitalization.

So what are the biggest mistakes IROs make when communicating with sell-side analysts? How can a company not yet on an analyst's radar get his or her attention—what does that first approach look like? What best practices should every IRO follow, regardless of sector or market cap? We asked Cohen those questions and more. His responses—and your takeaways:

Let's jump right into the downside—what are the biggest mistakes IROs make when communicating with sell-side analysts?

Well, this is a consideration only—not necessarily a worst practice. But one thing a company should look at is whether they're working with internal IR or an external firm. The truth is that an internal IR person is 100 percent devoted to the company and its presence in the market. If you're external, you're theoretically working on three to five companies at a time—so your focus isn't there. You don't sit and scratch your head for 80 hours a week thinking, "What can I do for this company?"

What are some other differences you've noted between internal and external IR, then?

In some cases, external IR people tend to want to include more "tidbits" of information—things they're not supposed to be telling you. They'll play the fence, as well. They may be privy to inside information like a capital raise, etc. They tend to be a little more loose with information. That's not necessarily good for IR—if you tell me inside information, that's not the non-compliance. The non-compliance comes if I do something with that information—that's the violation. So, I don't necessarily want to know certain things. The upshot is that it doesn't necessarily make IR people look better by disclosing more. In fact, it may make you look worse—as we'd rather deal with someone not trying to give us "pitch" stories.

Can you elaborate on that—what do you mean by "pitch" stories?

One of the companies I cover is a good example: They had an external IR person three years ago based in the country north of us, and he called every analyst on the Street and tried to feed them information regarding sales, and so on. He wanted to attract research coverage—and was trying to sell a bucket of goods that wasn't accurate. It happens.

OK, that certainly sounds like a mistake—what others can you share?

I'll go with another example. Recently, an internal IR person was pressing for research coverage—and making suggestions to us from [their] management that [we] should get on the story in a timely fashion because, as they said, "Other analysts are looking at it and interested." Personally, I'm not interested in being the 14th analyst in a \$1 billion market cap. That's not my cup of tea. I'd rather be first, second or third analyst on a \$400 million market cap with an extremely compelling and not yet widely understood thesis.

Fair enough. Can you riff through other common mistakes and create a checklist of what not to do?

- **Not taking advantage of analysts as mouthpieces:** This is a huge fundamental mistake IROs make. What's the very first thing an IR firm or person should do if, for example, the stock is in a tailspin? Answer; Get in touch with the analysts covering the stock. All of them. A company I cover was down 37.98%, at a neutral rating and had a new IR firm a month or so ago. Do you think I've heard from them yet? No, and that's not taking advantage of a major mouthpiece available to you.

- **Failure to tap analysts for mutual marketing:** Say I'm doing marketing in a NYC non-deal road show and the schedule is filled up a week before. I'll call the IR guy and say, "As you know, we have X person in NYC on this day. Let's put our heads together to meet with other accounts." Most of the IR firms I've dealt with have been very good with that. Those that aren't just don't know any better.
- **Doing virtually no IR:** By this, I mean having a controller or CFO do IR as a side job and basically just taking care of investor inquiries or press that needs to go out. I see a little bit of that, especially with smaller companies. As you know, IR firms are not cheap, so I understand it. But it's a fundamental disconnect about understanding the real value of IR.
- **Not practicing constant communication:** Communicating with the analyst is critical. Some firms are very good regarding constant interaction via email and phone calls. Some are not. I put a call into a company several days ago and still haven't gotten a call back. If I call a main number and they say, "Sheila does IR, here's her email and voicemail," I'll leave a message asking for more information behind the story. I shouldn't have to put in another call. Call back, ask how you can help, ask what questions you can answer, send a recent PowerPoint, whatever. Just don't let it drop.
- **Giving analysts the "hard sale" on research coverage:** Don't push to hard or give me a hard sale on research coverage by asking me, "Can you cover it—and when can you cover it?" It's not something I'm going to discuss with you. You should be happy to generally provide information. It's not about coverage or not—even though that's one way IR is being measured by management, I'm sure. An IR firm would like to think they can deliver research coverage—but the key is to be a resource and it will come out of that.
- **Being over-promotional:** This is when it looks like the company is desperately trying to send out as many press releases as they can conjure up to create something out of nothing. You see it when someone sends a release that was just sitting in the top drawer ready to go when they needed something because the stock is weak. This is also about language usage in those materials, and it's also volume issue. I don't need to see releases that often. I have probably gotten 50 press releases from one particular IR firm last month—they sent one out about every 48 hours. Are you being paid by press release volume? Please only put it out when it's material to the company.
- **Attempting to "game the stock":** An IR person's activity or inactivity shouldn't be dependent on the stock price. At \$20, a company doesn't need me ... then suddenly the stock gets hammered to \$5 and yours truly is somehow on the A list again? It's even worse if all the other people drop the stock because they don't cover it anymore. Just because I'm not at Goldman doesn't mean it pays to pay less attention to me. You shouldn't prioritize your level of service and information depending on whether the analyst is at large tier firm or smaller boutique. Similarly, don't give info to one analyst that you don't give to another. And don't always make one certain analyst your first call—be fair in the way you're treating them. Elaborating on that, I was on a conference call recently and they said, "We look forward to meeting more of you as we're on the road marketing." I put in three calls and still haven't heard anything. Did you lose my voice mails, forgot I existed or are you simply prioritizing us in a way that will backfire?
- **Not updating IR websites with analyst info:** Please make sure the information on your company's website is accurate with regard to analysts, and make sure that it appears in a timely fashion. I made a call two weeks ago about this. I said to the guy, "I've been counting and I stopped at 37 days since I initiated on your company—why won't you put it up on your site?" I heard a convoluted IT excuse. But then, guess what? It was up in 90 minutes. So, did you forget about me?

OK, that's quite a list—so what do the best IROs do right when it comes to working with analysts like you?

Well, a lot of companies do a great job—I want to make that clear. One of the companies I cover is in biotech with an internal IR person on the East Coast who does a really great job. No email goes unanswered, no questions remain unanswered, and no bullet item or issue is not addressed in a timely fashion. It just makes the whole relationship easier. I don't have to talk to the guy—I have never discussed the price of his stock with him. It's not material. The story is what it is. He's just a good person.

So, the takeaways are: Don't evade questions or hold off on responses. Be helpful. Be a resource. I asked a company I know has equipment within 60 miles of me if I could see the equipment. I've asked repeatedly. It has been a black hole—they're not helpful at all.

How should IR make that introductory call to you or others?

It's all about being a great source of information and understanding the company and the sector to the nth degree. A superlative example is the IR guy who calls you out of the blue—instead of me accosting him. You'll call and say, "You don't know me, but I noticed you cover X Company and I do work with Y Company. I'd love to walk you through the story, and what's interesting in this space that you might find interesting to do work on." That's all it takes. Just don't make me hunt you down. If I have to do that, my third voice mail is nasty and not nice. Don't let it get to that.