

Think of investor relations as a category of customer relations. A good practice is to segment stockholders and develop targeted communications for each group.

Put a Smile on Stockholders' Faces

By Claude A. Hanley, Jr.

The challenge for investor relations is even greater today than it was just 12 months ago. Given the pall cast over the industry by deteriorating asset quality and the somewhat ominous economic outlook, the investment environment has shifted dramatically. Today's investors thus have a different set of concerns that need to be assuaged.

Don't forget, however, that investor relations always has been about far more than just numbers. If you are restructuring or upgrading your program, keep in mind that the purpose of investor relations (IR) is to differentiate the bank from its competitors and to communicate the company's intrinsic value and future earnings prospects. While a high stock value over the long term cannot be sustained without sound financial performance, numbers alone do not guarantee that investors will pay sufficient attention or recognize a bank's true potential.

Surveys confirm that information provided by corporate executives has an important influence on the investment decisions of investors and analysts. But how that information is communicated can make or break a bank's image, and thus its future success. Long gone are the days when banks can take an ad hoc approach to IR, setting their chief financial officer in front of a microphone to read aloud from a quarterly earnings report.

Ideally, banks should have a comprehensive approach to investor relations that serves to shape and inform the content and style of information shared, sets priorities regarding the investor relations vehicles used (e.g., conferences, one-on-one meetings, shareholder letters) and provides guidance on communications frequency and timing. This concept may be easy to grasp in theory, but effective implementation requires significant senior level commitment and a broad-based effort.

While no single recipe exists for creating a successful investor relations program, conversations with bank IR professionals and investors indicate that successful shareholder relations programs share a number of common ingredients. This article addresses

such core elements and provides some IR best practices to help banks of all sizes gain greater value from their efforts in this arena.

Back to basics

An effective approach to interacting with investors features greater proactive disclosure of asset quality, targeted messaging and frequent communications.

During the halcyon days of sterling credit quality and low charge-off rates, investors had the luxury of focusing mostly on loan growth. Nowadays, however, investors are acutely concerned about potential risks embedded in both the loan and securities portfolio, and demand for data on credit quality is almost insatiable. A back-to-basics approach is what's called for: To provide information that is clear, concise, timely, relevant and visually appealing.

Zions Bancorporation of Utah is a leader in conveying a comprehensive picture of its financial status in a clear, concise manner. A recent Zions' investor presentation included trends in multiple asset quality metrics over several years, and compared Zions' performance to that of its peers over the same period.

The presentation also included extensive parsing of loan portfolio information such as the following:

- Loan purpose.
- Specificity on the components of the construction and land development (CLD) portfolio.
- Geographic distribution of borrowers.
- A loan-to-values breakout.
- Held-for-sale securities portfolio details by rating, e.g., trust preferred securities.

the composition of the loan and securities portfolio, and trends in credit quality by loan type, especially the CLD portfolio, which is of particular interest to investors. Also, it is important to provide this information at the beginning of the investor presentation; otherwise, the bank risks having the other parts of its presentation fall on deaf ears. Certainly, these numbers do not embody the whole story, but once they are presented, investors will be more receptive to other elements of the bank's presentation.

No news is bad news

Recent developments have underscored the wisdom that in bear markets investors will assume the worst about a company, absent information to the contrary. In response to investor concerns, leading banks have increased the frequency of communications through a variety of channels including press releases, one-time letters to shareholders, and fresh postings to their investor relations' Web page. To ensure press releases and other communications are widely distributed, banks should employ services such as Business Wire, and not restrict their communication outlets to local media.

When the news is bad, a company is better off communicating that in a transparent manner. It is important to accurately convey the situation, but not to dwell on it. Conversely, when the news is good, the best advice is to get the word out! One well-performing community bank accelerated the release date of its second quarter earnings release so the bank could alleviate concerns among its shareholders as well as to provide management with positive news to discuss.

Accentuate the positive

Banks are tailoring their investor messages to today's environment by emphasizing positive performance trends and stability in their shareholder quarterly letter and Web page. For instance, the Web site of WSFS Bank of Delaware contains a section entitled "WSFS is a Safe Home for Your Money." While ostensibly aimed at depositors, the message of "business as usual in unusual times," coupled with representations on capital growth, solid earnings and good asset quality also resonates with investors.

Clarify boundaries: What's OK to share

Owing to the many unsettling developments that have buffeted the industry recently, it is not uncommon for shareholders to contact directors seeking inside advice on whether to sell the stock. Also, sometimes shareholders contact directors inquiring about the condition of the bank. This is most commonly experienced by publicly traded community banks where a significant percentage of the shares may be held by directors, management and friends and family of directors. The board of directors is therefore

de facto the primary vehicle for investor communication.

While directors of a publicly traded institution may know there are limitations as to what they can say in such instances, specific boundaries may be less well understood. Before such situations arise, banks need to prepare their directors and explain clearly what may and may not be said publicly. Some institutions provide scripts for the directors to follow when fielding a shareholder inquiry.

Long-term IR practices

The turbulence in the banking industry today—while seemingly interminable—will abate eventually. Now's the time to consider incorporating in some IR best practices that enhance its effectiveness irrespective of the prevailing investment environment.

A company's investor relations story should consistently communicate and reinforce the bank's business strategy. To ensure consistency in messaging, IR staff should be empowered to review all external communications, from the annual report to press releases. Some banks have taken an additional step by creating a disclosure review group that includes investor relations.

Information release: Timing is crucial

Consistency of messaging also includes coordinating the timing of information release. One challenge for bank investment relations units is that bank investors have access to sources of performance data other than bank-provided information. Regulatory agencies are an example of sources of such data. The Federal Deposit Insurance Corporation (FDIC) promptly posts online all bank quarterly reports of condition and income. Thus, a bank's call report may become public before its own earnings release. Not only will sophisticated investors see information before the rest of investors, but also the bank's performance figures will be disseminated without the benefit of management's input and analysis.

A best practice is to release the bank's earnings report within 30 days of quarter end to ensue that it precedes the call report's release.

Tailor IR outreach to specific audiences

Effective IR programs consider investors to be customers: They have thousands of investment options from which to choose and they are also not homogeneous in their approach to investing. After all, there are thousands of mutual funds representing a range of investment styles, objectives and sector specialties.

Sophisticated investor relations programs segment the universe of institutional investors to better target their outreach program, such as road shows or invitations for one-on-one

management interviews. Compass Bancshares of Alabama (prior to its purchase by BBVA Group of Spain) employed fee-based investor relations service profiling tools such as Shareholder.com and Thomson Financial to segment and target institutional investors and funds. The bank applied several screening criteria when identifying potential institutional investors, such as the level of turnover.

An effective investor relations function can make a difference. Among other benefits, it can help to articulate the bank's strategy and its underlying drivers of value to investors. This information is made more powerful when complimented with performance information that is transparent and timely. In turn, this allows investors to better analyze the company and ideally helps to differentiate it from others. While there is not one winning formula for having an effective investor relations function, instituting the practices discussed above will improve its effectiveness.

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