

# O'DWYER'S P R S E R V I C E S REPORT

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## Wall Street's lament: "what we have here is a failure to communicate"

By Hulus Alpay & Gene Marbach

The line, "What we have here is a failure to communicate," came from the great movie, "Cool Hand Luke," which starred Paul Newman. That line went on to become a catch phrase of the '60s. And, given the rising tensions between corporate chieftains and the Wall Street community, the phrase may once again become vogue.

### Battle lines are drawn

Driven by the need for information to make informed investment decisions, sell-side analysts are becoming increasingly frustrated with corporate chieftains, who, feeling constrained by such rules as Reg. FD are reluctant to talk and, when they do speak, say little of value. For their part, CEOs are becoming increasingly combative towards the investment community over their views, particularly when such views may be negative in nature. Take the case of Sears Holdings. Recently, Sears chief Edward Lampert came under fire for a letter he wrote which accompanied the company's third quarter earnings report. In his letter he criticized the company's detractors for their reactions to his corporate strategies and advised stockholders to regard such commentary with "healthy skepticism." He added: "This

is particularly so with respect to the loudest views, the most widely held views, or the so-called 'expert' views. For many commentators, analysts, and reporters, their success is dependent on the excitement or controversy generated by their articles - not on the accuracy of their writing or of their predictions."

***"Blogs remain a great unknown for most corporations. The Makovsky survey found that only 20 percent of the executives surveyed have any process for monitoring blogs written about their company."***

**Robbin Goodman**

Executive Vice President and Partner,  
Makovsky + Company

### Banished to the penalty box

As a result of the Wall Street settlement a few years back, sell-side analysts have had to become more independent in their opinions and stock ratings; hence the emergence of more "sell" ratings and negative views of companies they cover. This, too, has led to increased tension between corporate managers and the Wall Street community. Tales abound of analysts being "blacklisted" by companies,

most notably by being denied access to management; however, most activities of this nature go unreported for fear of additional reprisals.

One such case that made headlines involved Altera Corporation. The West Coast

Chip maker drew the scrutiny of the Securities & Exchange Commission in 2005 over its "communications with equity analysts." The company was accused of "blackballing" an analyst. In July of last year, the company issued a statement from Nathan Sarkisian, the company's chief financial officer, which, in part, read: "In March, I informed Mr. A.A. (Tad) LaFountain, III, semiconductor securities analyst at Wells Fargo Securities, that I, our CEO, and our investor relations staff would no longer continue dialogue with him. I took this action because, in my view, we

were having unproductive conversations on a topic for which we had irreconcilable differences. Consequently, on July 26, Mr. LaFountain chose to drop Altera coverage. Regrettably, as a result of our action and the ensuing press coverage, some have concluded that our intention was to manipulate opinion. In retrospect, our decision to disengage was in error, and I apologize to Mr. LaFountain, our investors, and the investment community."

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## Prepared remarks and platitudes no longer suffice

While prepared remarks and presentations delivered during earnings conference calls are typically not problematic, difficulties can emerge during the question and answer sessions. A celebrated example comes from James Dimon, CEO in waiting at J.P. Morgan Chase. During his company's third quarter conference call, he was asked about potential mergers. Given his career track record of being an acquirer on a fairly grand scale, one would think he could frame a concise answer to such a question. Not so, instead, he delivered a response that was convoluted and fractured, and for which he was publicly criticized.

Enhancing shareholder value, driving top line growth, generating sustainable profitability...heard these before? What CEO doesn't want to accomplish these goals? What investors and your other constituents want to know is how these will be accomplished. Coke chief Neville Isdell has been criticized for failing to provide specifics as to his growth plans for the soft drink giant and, near the end of last year, PepsiCo passed Coca-Cola in the market cap derby for the first time since Coke's shares started trading in 1919. The Wall Street community is divided as to whether or not the company can meet its growth objectives with its combination of new products and new advertising. Following its recent analyst meeting, Bear Stearns analyst Carlos Laboy wrote in a research note: "Coke issued itself a report card that we feel was too generous and incomplete. The report card was notable for its omission on matters of system alignment and bottler relationship clarity, where we do not think Coke could easily give itself a passing grade."

## Tips for CEOs

While regulations have served to curb past excesses, they've also helped create new problems. We offer these few tips on how to improve your company's working relationship with the investment community:

- **Persuade don't punish** — Face it, we live in an "Information Democracy" and, as such, there will always be differing opinions. If your company disagrees with the conclusions of sell-side analyst or feel he or she is not being objective, try to persuade him or her with facts and research that support your point of view (obviously, only facts and research that are publicly available can be used). Should this approach fail, take your case to the firm's research director and, finally, the organization's arbitration officer.

- **REALLY know your audience** — One of the first rules of public speaking is to know your audience. For CEOs facing an audience of investors, be it on a conference call or at a meeting, knowing what they are interested in is critical. Prior to investor events, your communications officers should take soundings of a cross section of investors - buy- and sell-sides - to determine the issues that are on their minds. This will help shape the prepared remarks as well as anticipate some of the questions that might be asked (to which optimal answers can be prepared).

- **How you say it is important, too** — Rehearsals are important, and the more rehearsals that can be held prior to the actual event, the better. Your CEO or presenter will sound more at home with the material and, in the case of conference calls, the presentation will sound natural as opposed to being read from a script.

Also, simulate the actual event by holding a "mock" Q&A session. Supreme Court Chief Justice John Roberts was applauded for the cool demeanor he exhibited during his confirmation hearings before the Senate; undoubtedly he benefited from numerous rehearsals as well as being subjected to something called the "Murder Board," which simulated the hearing process.

- **Offer the steak with the sizzle** — Goals are fine, but will sound hollow without substance in the form of details. Also, goals should be accompanied by benchmarks by which your company's performance can be measured (of course, be sure that your company is prepared to update them consistently). If it is too soon to discuss the details of a strategy, it is better to wait to have it all in place before unveiling it or hinting at it. By providing detail and practicing transparency, your company's shares will be accorded a valuation commensurate with its prospects and will experience less volatility.

- **Be accessible to maintain your credibility** — Good news is easy to communicate; however, delivering difficult news is never easy. CEOs must communicate in both good and bad times, and face the difficult questions. An open, honest and accessible management team will be viewed favorably by the investment community and lead to the development of a reservoir of good will.

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