



IR as a Value-Creation Strategy

CEO Workshop, at the Capital Market Academy
March 2015

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CONTENTS

- 1. Core principles of investor relations**
2. Case studies for best practices IR
3. How to develop an effective investor relations
4. Current IR challenges

Financial Communication or Investor Relations is a vital factor to maximize shareholder's value



Why is IR Important?

Roles and responsibilities of listed companies to disclose information to shareholders

Investors have choices

- Investors need to hear, understand and believe in your story
- IR introduce your identity
- IR gets you notice
- IR creates investors' confidence in the company and management

Process of building good reputation never ends

- If investor feel badly treated, they will sell and its harder to bring the share price up than to maintain it in the first place
- *'It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.'* Warren Buffett

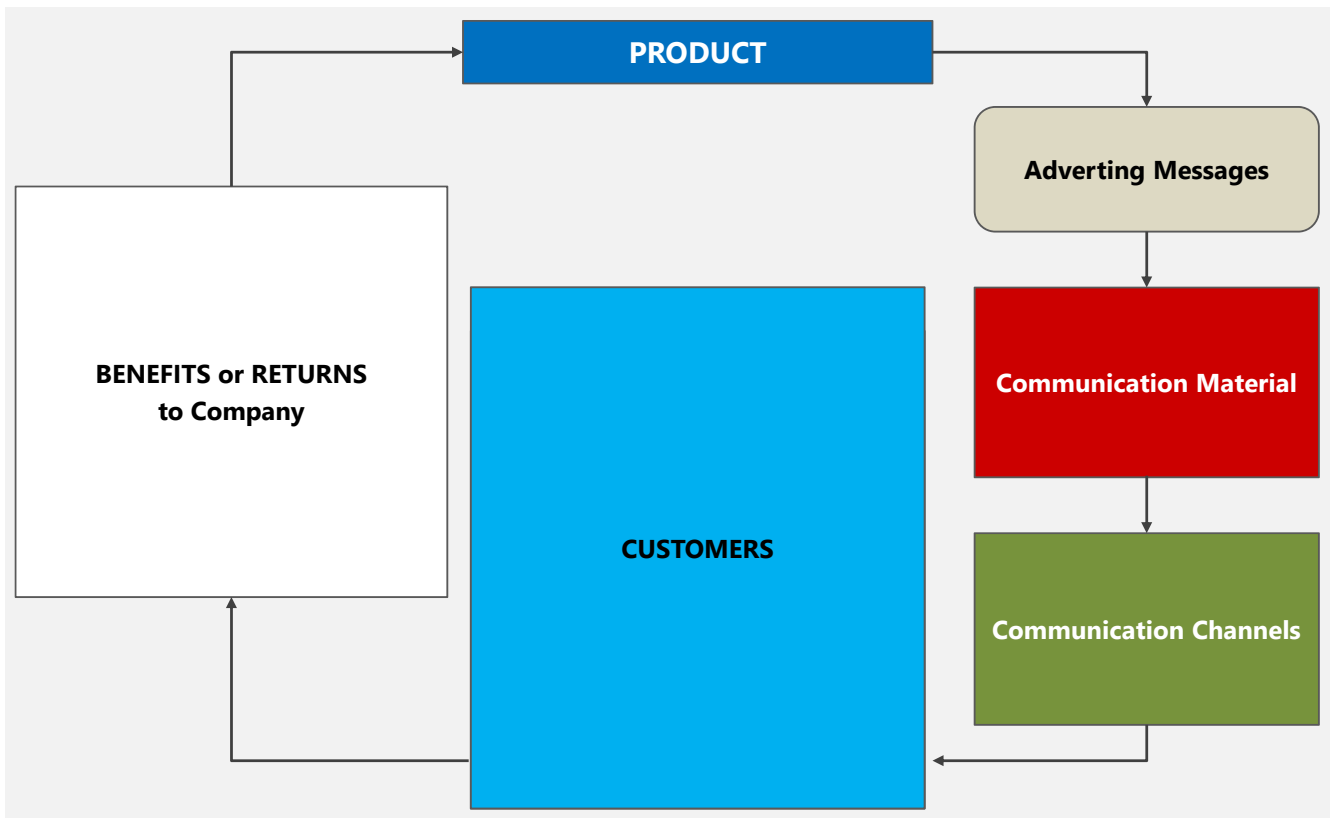
Helps when raising capital

- Fund is limited

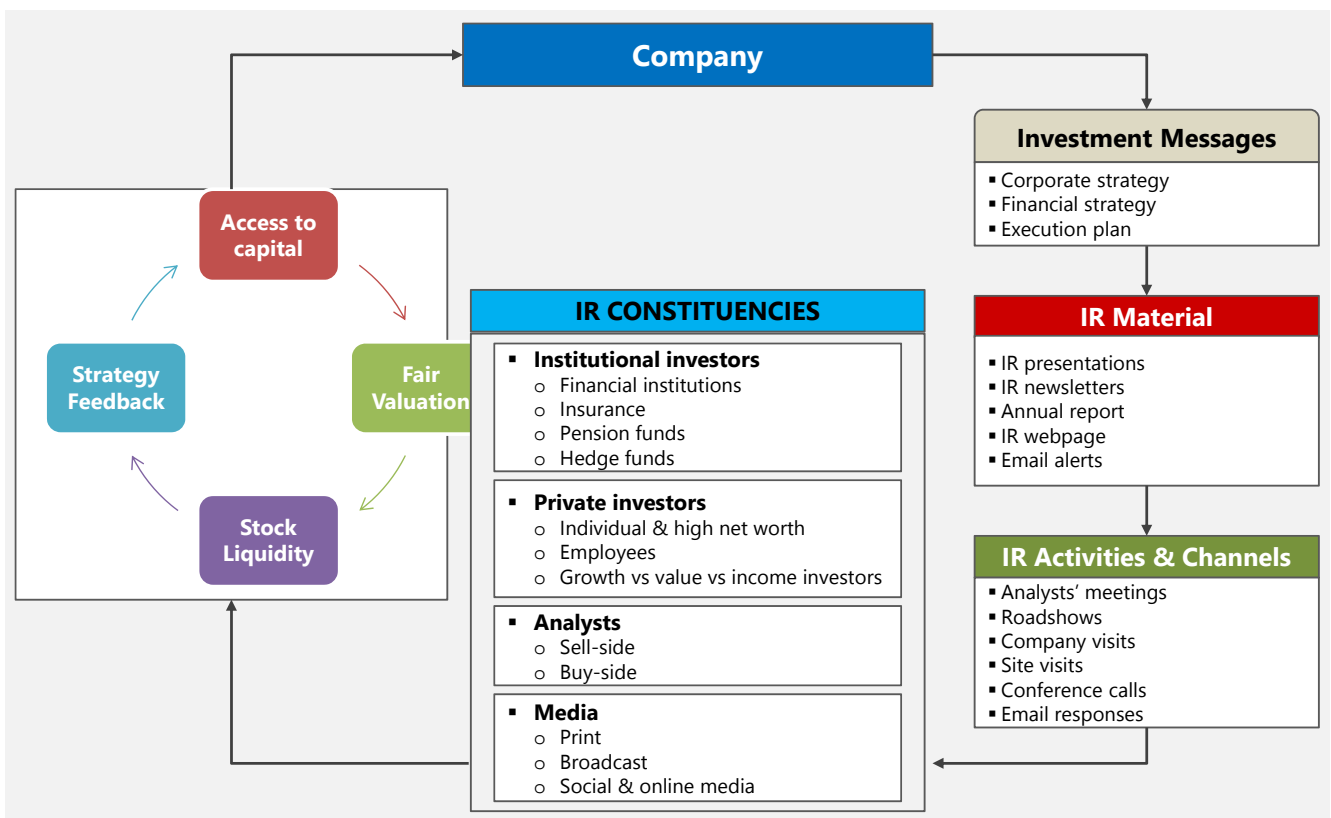
Investor Relation could help in Crisis

- *'Life is like a box of chocolates, you never know what you're gonna get'* Forrest Gump

What is Investor Relations (IR)?



What is Investor Relations (IR)?

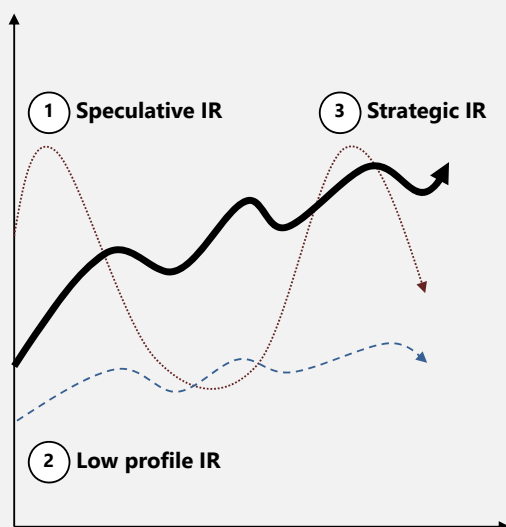


What is Investor Relations (IR)?

Investor Relations can be defined as:

- A **strategic management** responsibility that integrates finance, communication, marketing and securities law compliance to enable the most **effective two-way communication** between a company, its **shareholders, the financial community, and other constituencies**, which ultimately contributes to a company's securities **achieving fair valuation** and **lowering its cost of capital**

Benefits from the IR Program



▪ **Strategy feed-back & competitors insight**

Valuable feedback of investors' sentiments for senior management to adjustment and fine-tune company's strategy

▪ **Increase in number of analyst and have support for growth**

With investor's confidence and good reputation from transparency, good corporate governance and fair information disclosure from IR, the company could raise future capital with ease, if needed

▪ **Stabilize share price & minimize investor surprises**

Giving information regularly and fairly will not surprise investors and will help investors not to sell and buy when panic

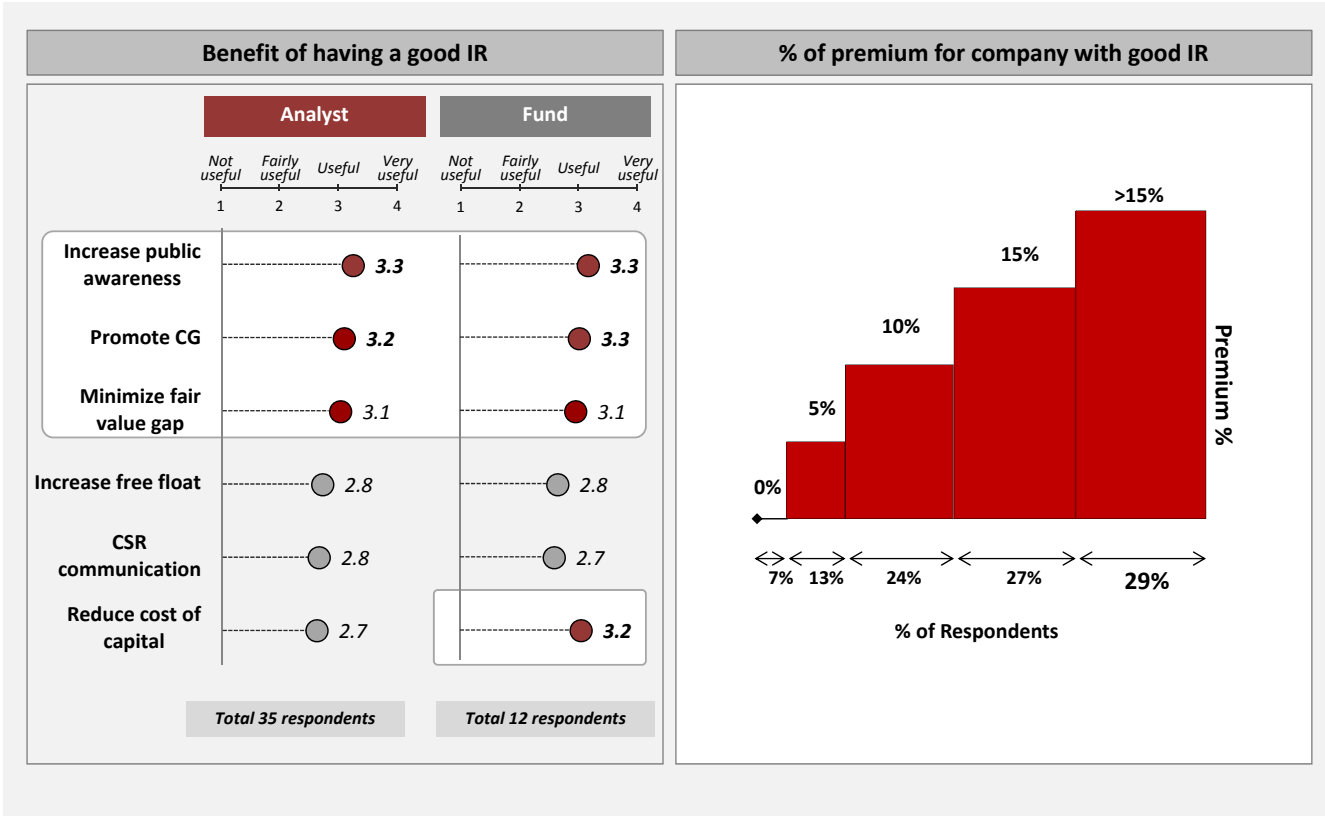
▪ **Reduce 'Fair Value Gap' & reduce cost of capital**

Providing accurate and relevant information to analysts and investors help increase understanding and help them to assess and project the company's financial performance more accurate

▪ **Enhance trade liquidity**

Adopting good IR practices and being active in IR will help enlarge investor base and analyst coverage

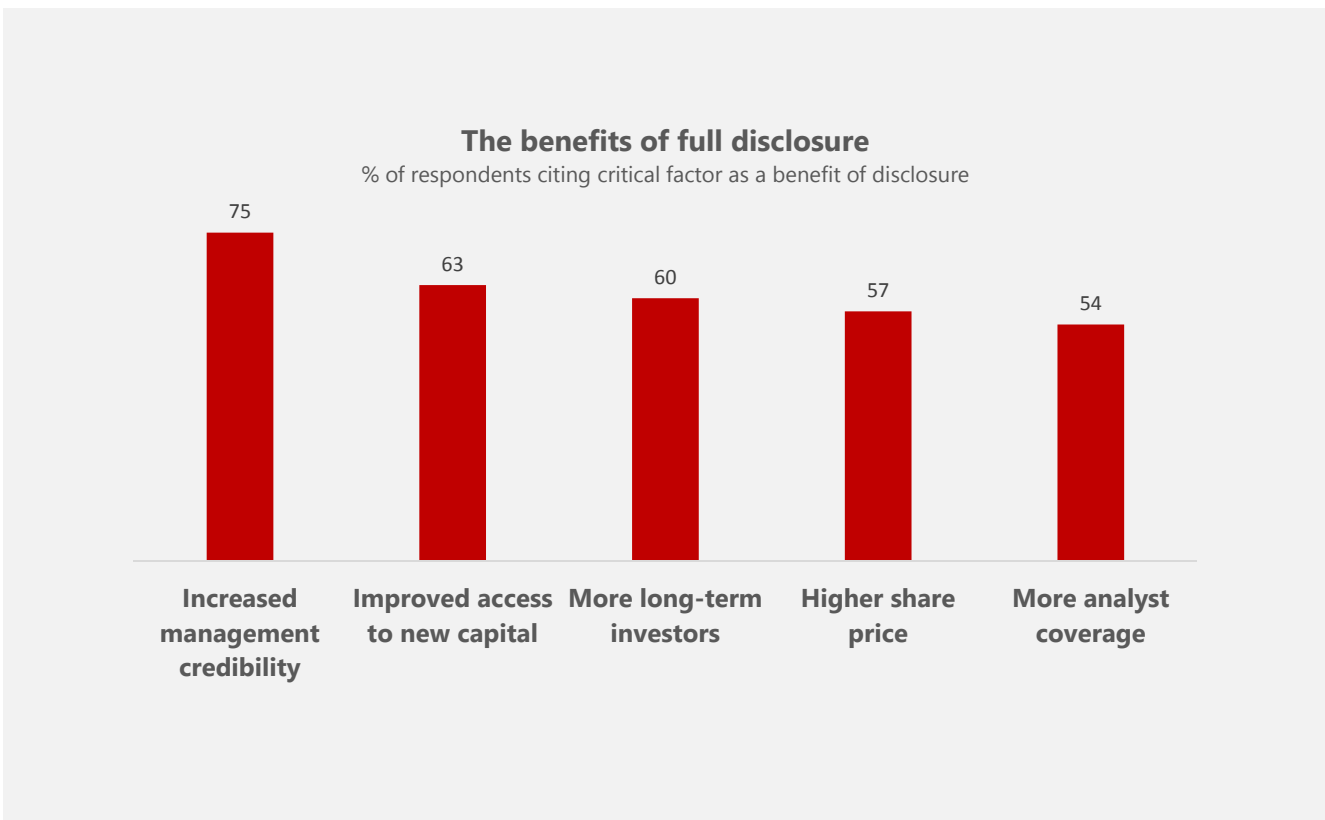
Benefits from the IR Program



Source: PYI Market signal analysis



Benefits from the IR Program



Source: PWC Research



Benefits from the IR Program

Independent research by the world's leading universities confirm that investors **will pay a premium for companies with outstanding IR practices**

Wharton Business School

*“Direct contacts with investors **increase management credibility** and thus have a greater impact on the success of the IR strategy.”*

Brian J. Bushee, professor of accounting Wharton Business School, USA

Harvard Business School

*“IR activities play a significant role in helping **small and mid-cap companies** overcome their low visibility to **attract a wider following by investors and improve their market valuation**”*

Gregory S. Miller, professor of accounting Harvard Business School, USA

Singapore Management University

“What premium are you willing to pay for a company’s share if it has exemplary IR?”

Survey of 38 fund managers

University of Zurich

Range of cost of equity advantage for companies with good IR over those with poor IR
Research from University of Zurich

University of Edinburgh

*“Firms perceived to have the most effective IR strategies **earn superior abnormal returns**”*

Richard Taffler, professor of finance and investment, University of Edinburgh, UK

What are the difference between PR and IR?

PR

- **Wider audience**
- **Broad knowledge of corporate matters and current issues**
- **Deep relationship with media**

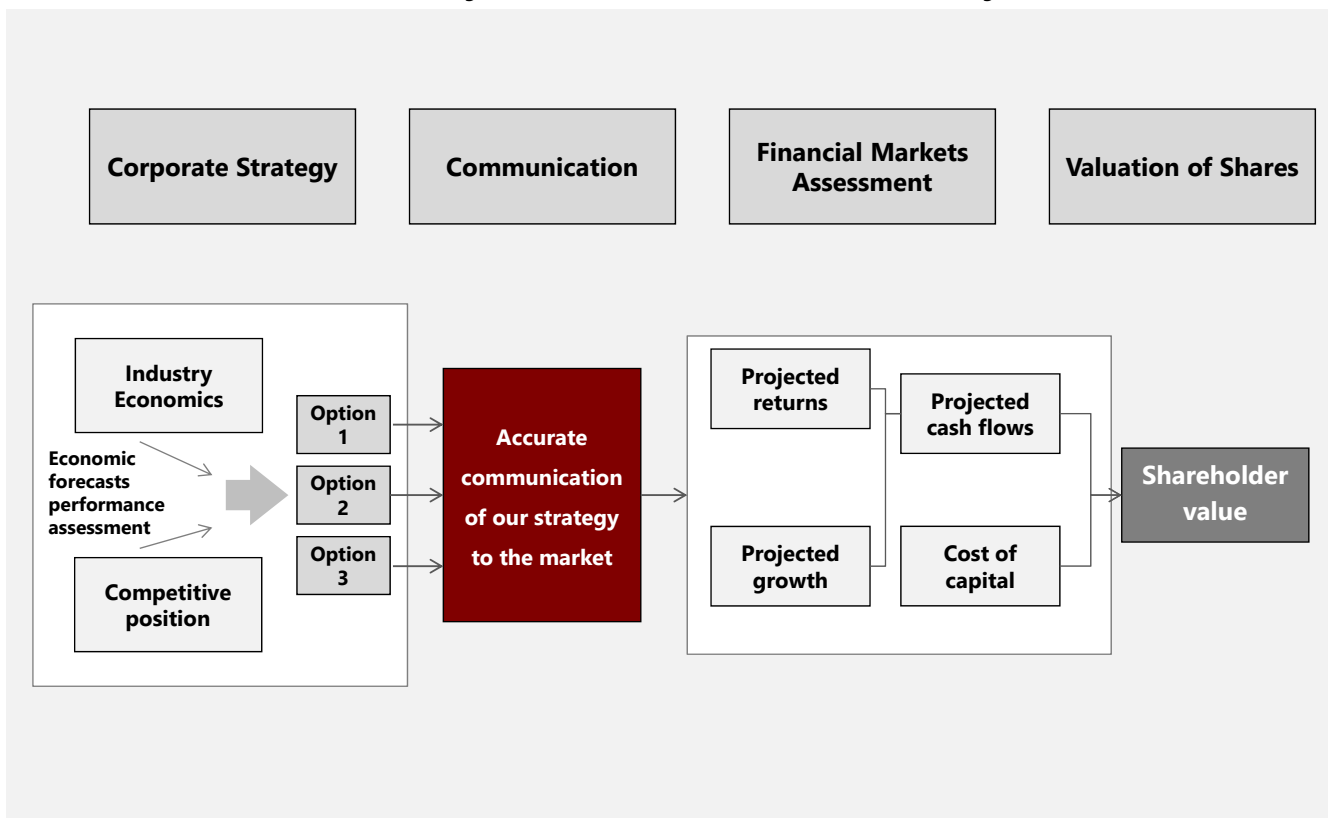
IR

- **Focuses on financial audience** Investors, analysts and fund managers
- **In-depth knowledge of corporate strategy, operation, financial performance, current issues and communication**
- **Deep relationship with investors and analysts**

- **Promote corporate image & brand**
- **Monitor news on the, industry and competitors and the company**

- **Promote IR brand**
- **Manage investors’ expectation**
- **Analyze market sentiment**
- **Obtain feedback from investors/financial community**

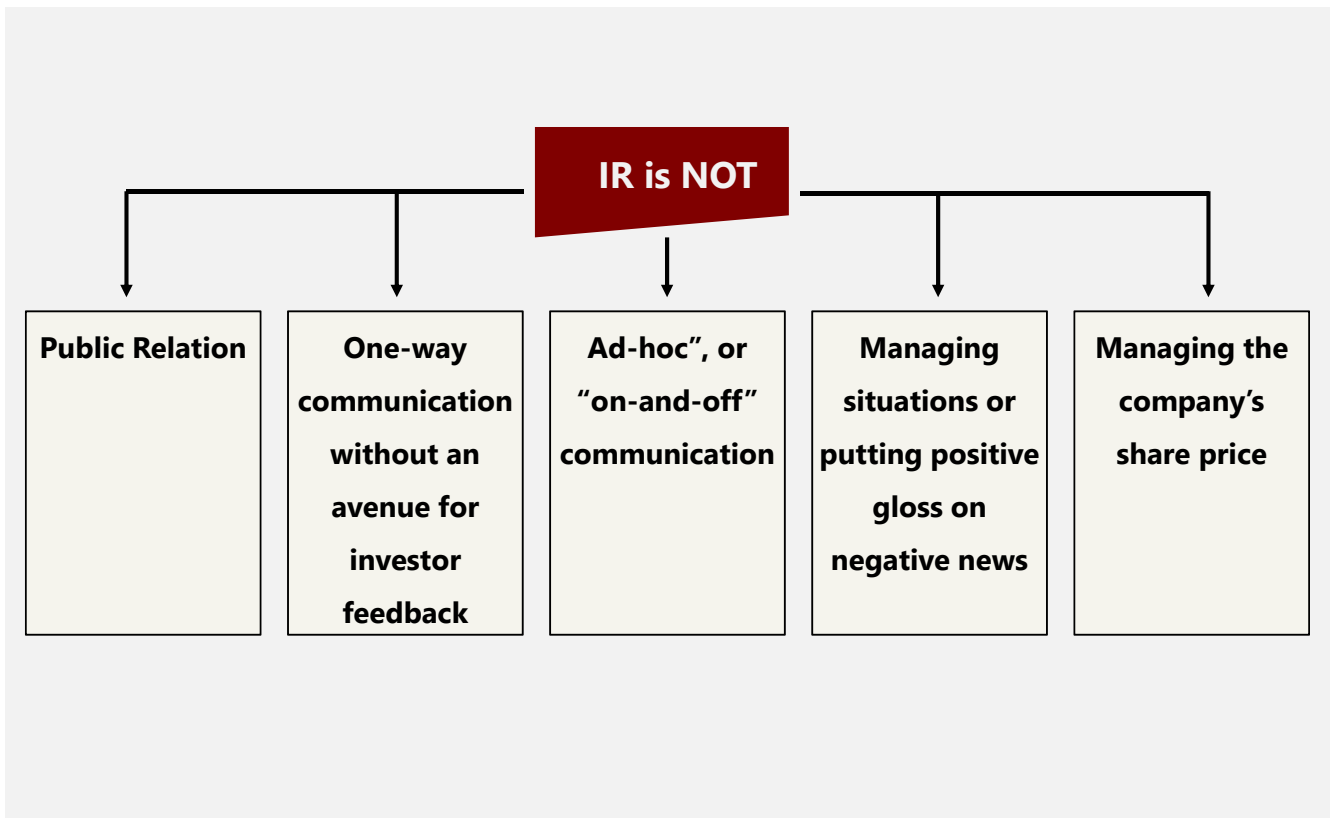
Management should provide accurate information to the investment community to enable it to value correctly



Main Roles of Investor Relation Officer

- **Building internal awareness of Investor Relations**
- **Ensure compliance with regulations**
- **Act as the company's key spokesperson in the investment community**
- **Make public precise understanding of your firm**
- **Keep investors interested and informed**
- **Establish, maintain, rebuild investors' confidence**
- **Keeping management aware of market's perception and issues**
- **Developing and maintaining a corporate disclosure policy**
- **Manage information disclosure to investment community**
- **Building and strengthening positive relationships with the investment community**

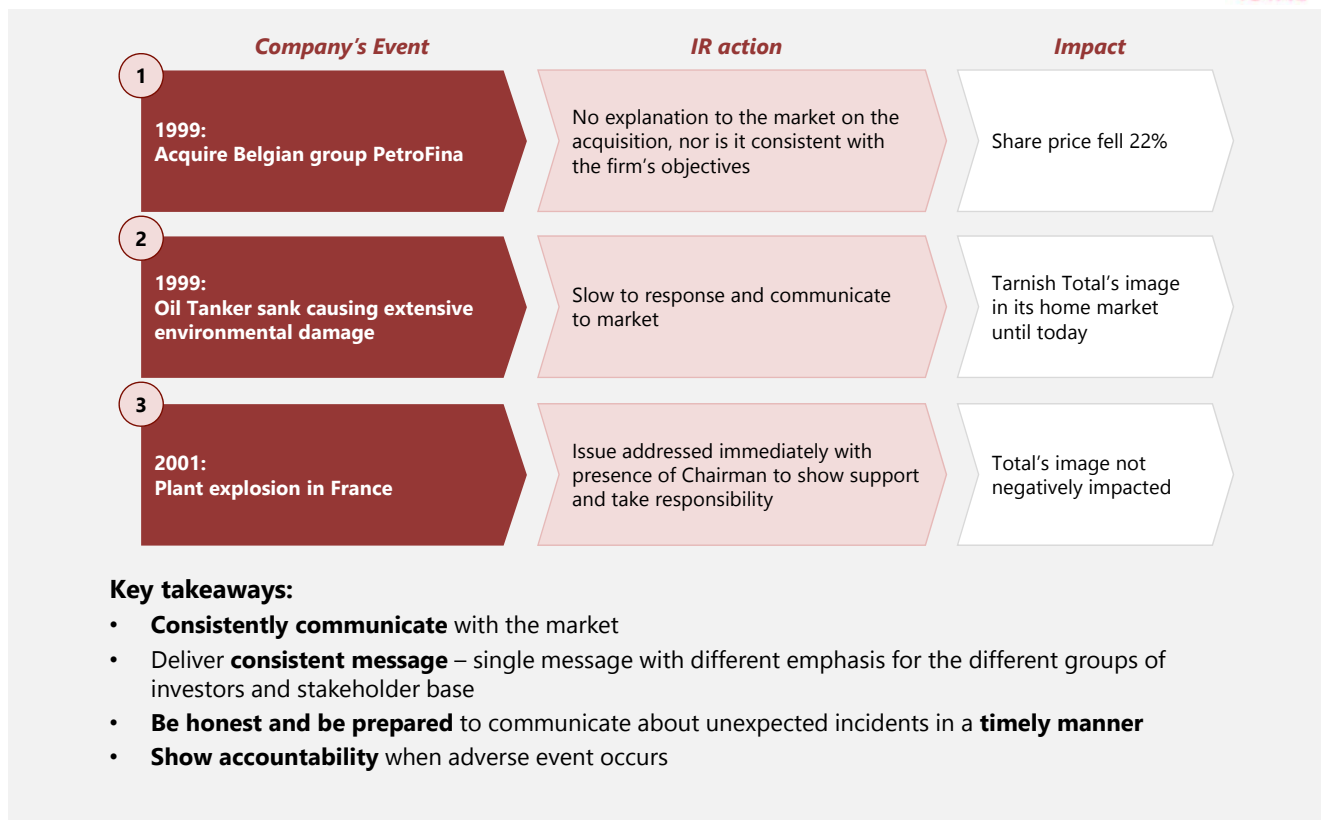
What is **NOT** Investor Relations (IR)?



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TOTAL case study: The importance of communication

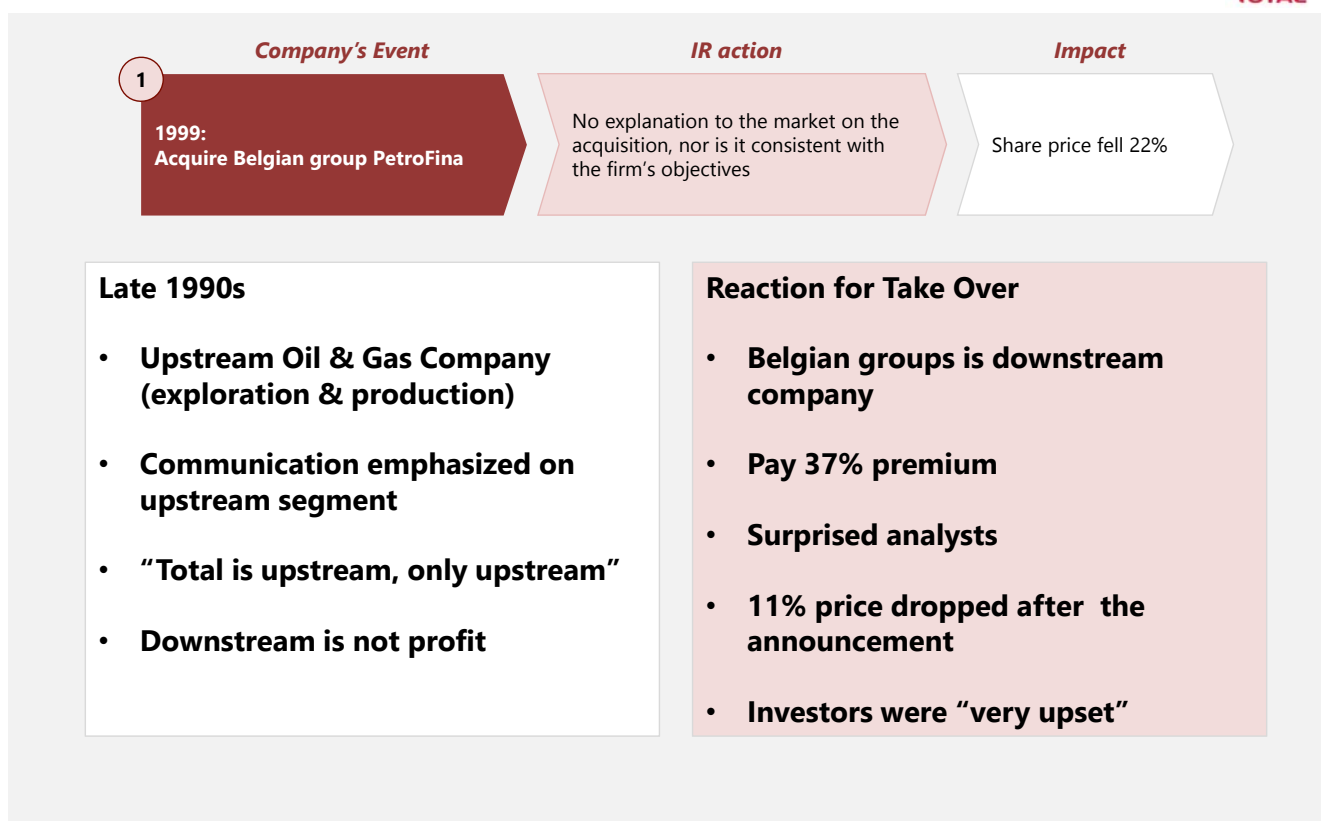


Source: Harvard Business School



18

TOTAL case study: The importance of communication



Source: Harvard Business School



19

Annual report

- Give true image of firm's financial situation
- Involve 50 people in drafting (IR, Legal and communication team)
- Reviewed by disclosure committee, audit committee, and board of directors

Road Shows

- CEO, CFO, Head of Strategy and Risk Assessment
- 35 cities twice a year (Sep & Feb)
- 400+ investors and analyst meetings in 2004
- *"Management has to be deeply involved in crafting the message because they will have to deliver it"*
- 30-35 slides

IR activities that match with its target

Retail Investors

- 520,000 retail investors
- Simplified message
- CRM system
- Shareholder journal (4 times per year)
- Website & Toll Free number (80,000 annually)
- Shareholders' Circle Event & Training
- 4 Annual information session

Institutional Analysts and shareholders

- Road shows
- Telephone Conferences
- Analyst presentation

Ethical or environmental analysts and investors

- CSR information

BP case study: Value of the “outside” voice



IR can be much more than a communication channel, as it detains a lot of information both ways. The IR group should act as a semi-permeable membrane; ***information from the company is projected to the outside world—and information from the markets should sift back into it....*** I am not saying the market is right or wrong, but we need to understand and factor in their opinion, recognize the different worlds and their contributions.

All these bright people thinking about the company and your industry are nearly like a form of ***outsourced planning***... it helps our thinking about how to make our business successful and ***helps us with our own planning***.

David Allen, Managing Director



Source: Harvard Business School



24

BP case study: Value of the “outside” voice



Competitors

- Followed other energy companies' communications to investors and analysts
- Crosscheck our own strategy and expenditure
- Idea on what questions BP could be asked
- Competitors' perception of BP

Analysts

- “Broker Book” (top ten analysts)
- Capture and quantify market expectation
- Circulate to all managing and commercial directors
- Highlights gaps between BP's plans and market
- View on industry trends (inside view from competitors)

Investors

- Feed back or question from investor impact the way BP communicate or the way they think about their business
- Different investors focus on different information



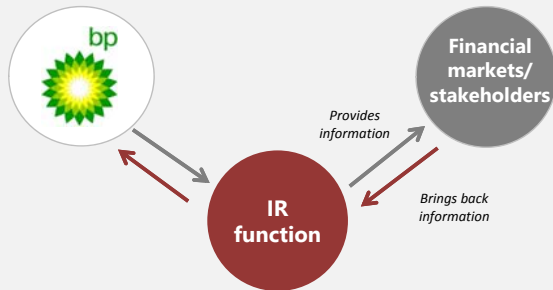
Source: Harvard Business School



25

“Outside-in information is important therefore, we should raise internal awareness of the usefulness of outside views since it will allow you to see things from another angle in a bigger context.”

- BP’s IR Team



- Keeps a record of investor feedback and questions
- Closely examines competitors’ financial performance and communications
- Compiles top 10 analysts’ views on BP’s performance and targets on a quarterly basis
- Keep up to date with industry news

External information

Understand shareholders’ expectation

Follow competitors

Observe analyst valuations/ forecasts

Listen to business feedbacks

Benefits to BP

Improve financial and other communications tools

Can position oneself against them

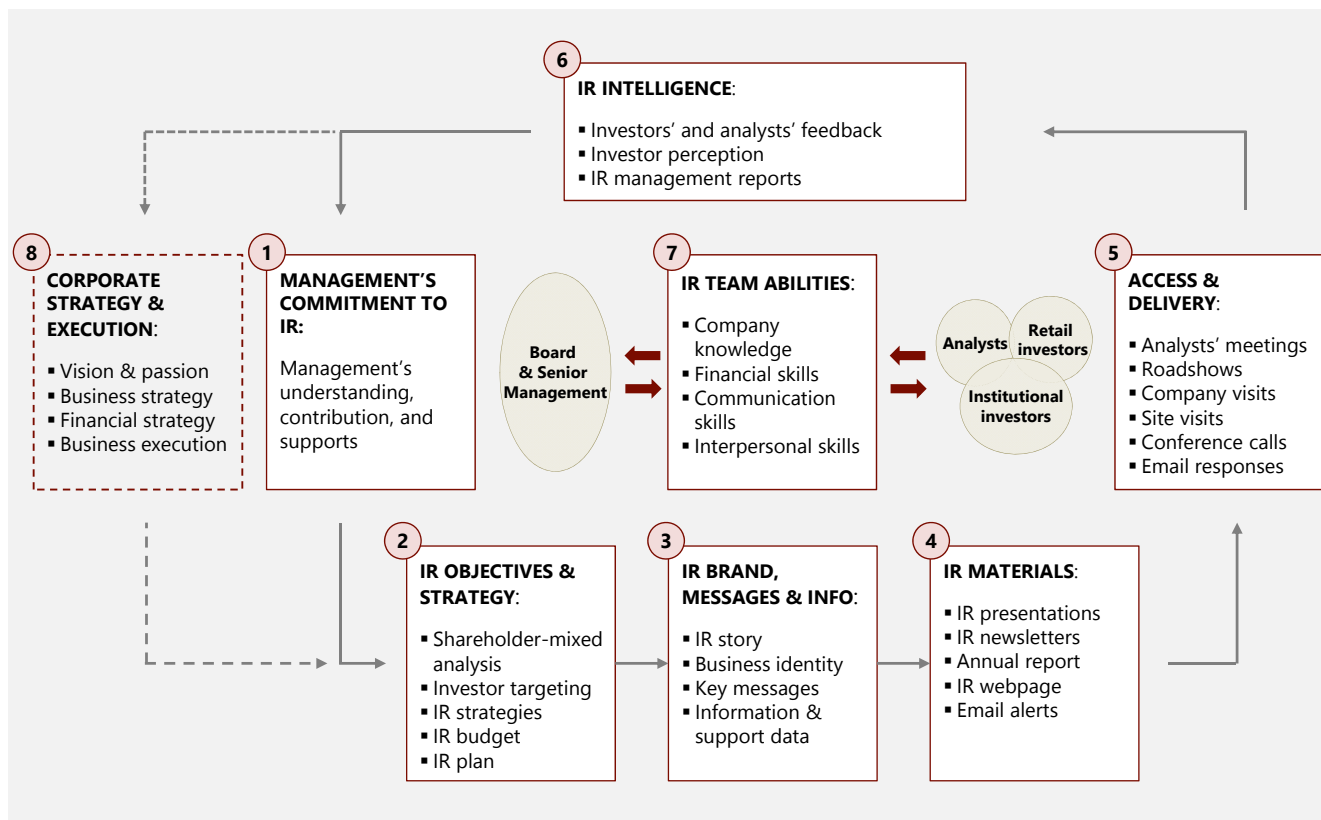
Raise red flags internally when market has different views on company’s performance and strategies

Doubts from outsiders may encourage internal people to reconsider business model/strategy/assumptions

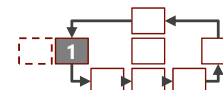
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A sample of "IR Best Practice"



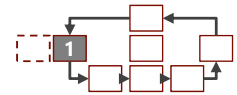
Role of the CEO on Investor Relations



CEOs are an extension on the B2I Brand

- **Author & creator of the future story of the company**
 - Ultimately responsible for the success or failure of strategy, the gain or loss of market position, and the strengthening or weakening of the company
- **Strongest advocates for the IR brand and message**
- **Investors prefer to take the word of the CEO**
 - CEO credibility underpins IR Brand credibility

DOs and DON'Ts for the CEO in Investor Relations



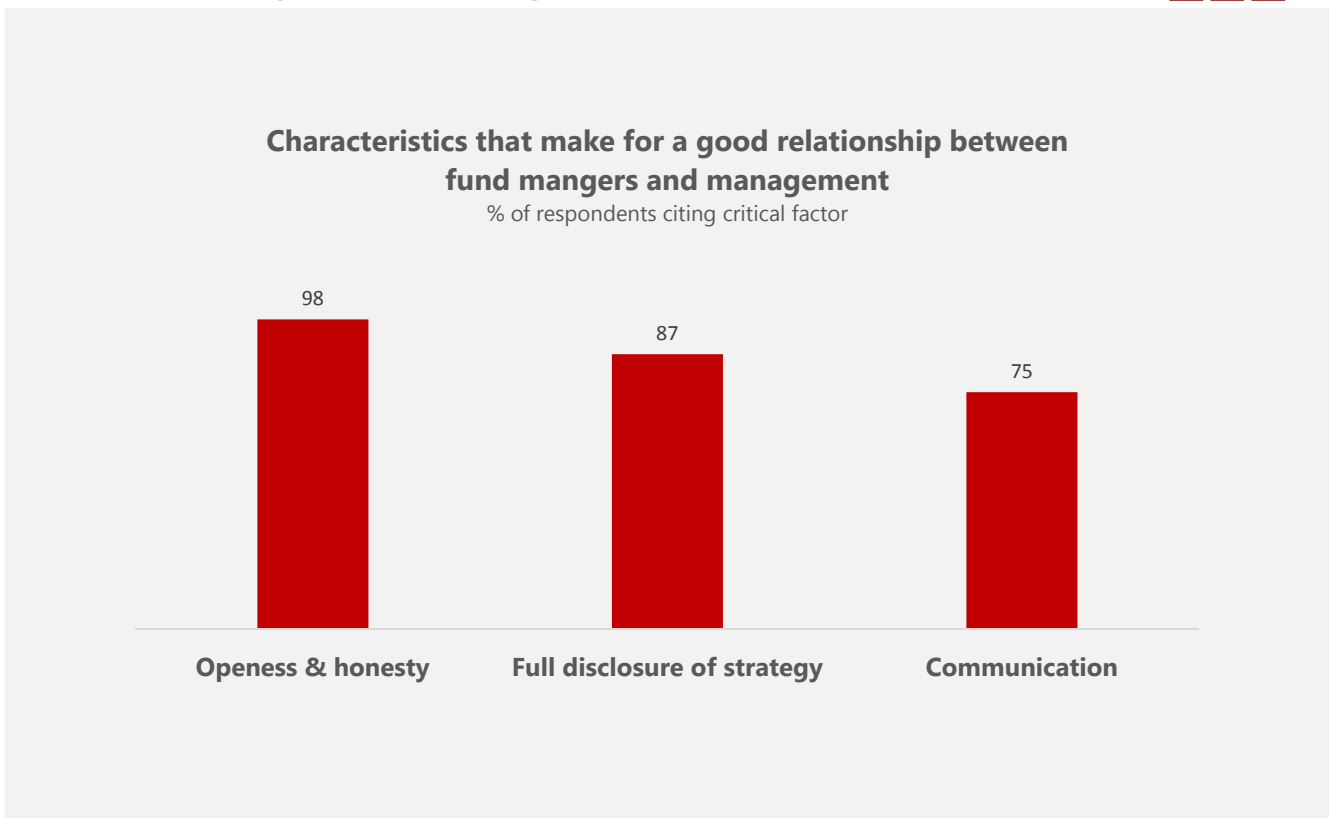
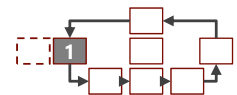
DOs

- ✓ **Be an information sharer**
 - Be the link between the Inside i.e. the organization and the Outside i.e. public, customers, media
 - Be credible, accessible and savvy about the business
- ✓ **Be very future aware**
 - Prepare for all contingencies
 - Resilient and resistant to adversity
- ✓ **Be competitor aware**
- ✓ **Be shareholder aware**

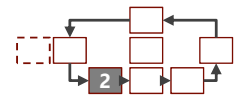
DON'Ts

- × **Don't delegate the actual thinking that goes into the preparation of crucial IR Brand related materials**
 - CEO's letter to shareholders
 - Insights into where the company is headed
- × **Don't over promise**
- × **Don't try to be all things to all people**
- × **Don't focus on the short term**

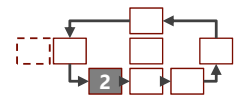
What characteristics make for good relationship between fund managers and management?



IR constituencies for company (Your IR clients!!)

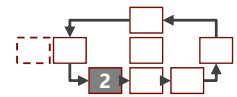


Meeting the needs of IR constituencies

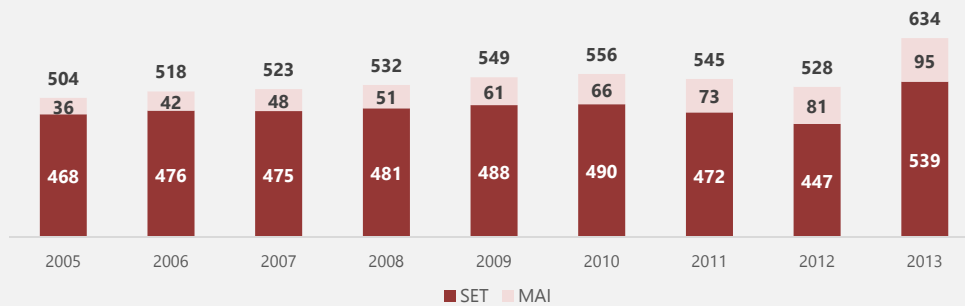


Source: Churchill Pryce IR.

The more listings, the higher competition

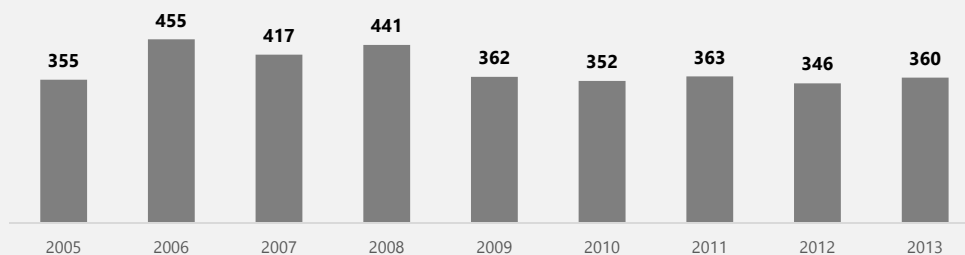


Number of listed companies



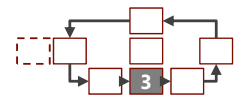
**CAGR
+ 3%**

Number of securities analysts



**CAGR
+ 0.2%**

Where do you get your investment thesis/story?



Determine your company advantage

- **Ascertain what management thinks**
 - Attend board & management meetings
 - Discuss with top management
 - Discuss with department heads
 - Read management quotes
- **Determine what the analysts and investors think**
 - Market signals analysis
 - Analyst reports
 - Press clippings

Formulate the investment thesis

Strategy

- How your company plans to succeed?
- How you do things differently from the competition?

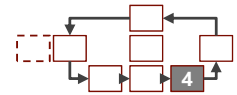
Strengths

- Your means to implement the strategy
- Must be supported by data and evidence

Market Position

- Where are you positioned in relation to your competitors?

Key IR communication materials



ANNUAL REPORT

- Most credible
- Most durable

The annual report is part of due diligence for most analysts before deciding to follow a stock

WEBSITE

- Most cost effective
- Widest reach
- First point of contact
- Vehicle for other communications

The IR website is the first place analysts go to get information on your company

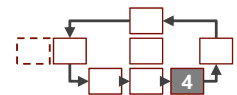
PRESENTATIONS

- Interactive
- Instant feedback
- Best source of non-financial information
- Chance to showcase management's experience and credibility

Management credibility ranks highest in factors considered important when making investment decisions

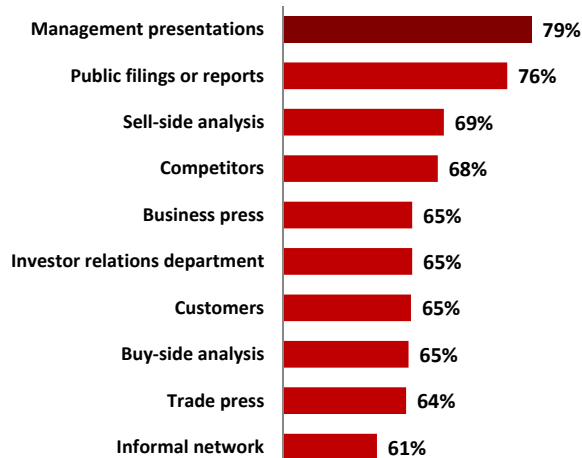
Source: Rivel Research 2008

Presentations are crucial



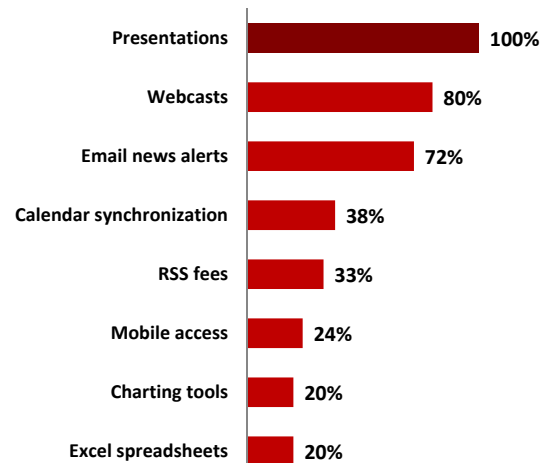
Which sources of non-financial company information do you consider important?

(Survey of U.S. analysts and fund managers)



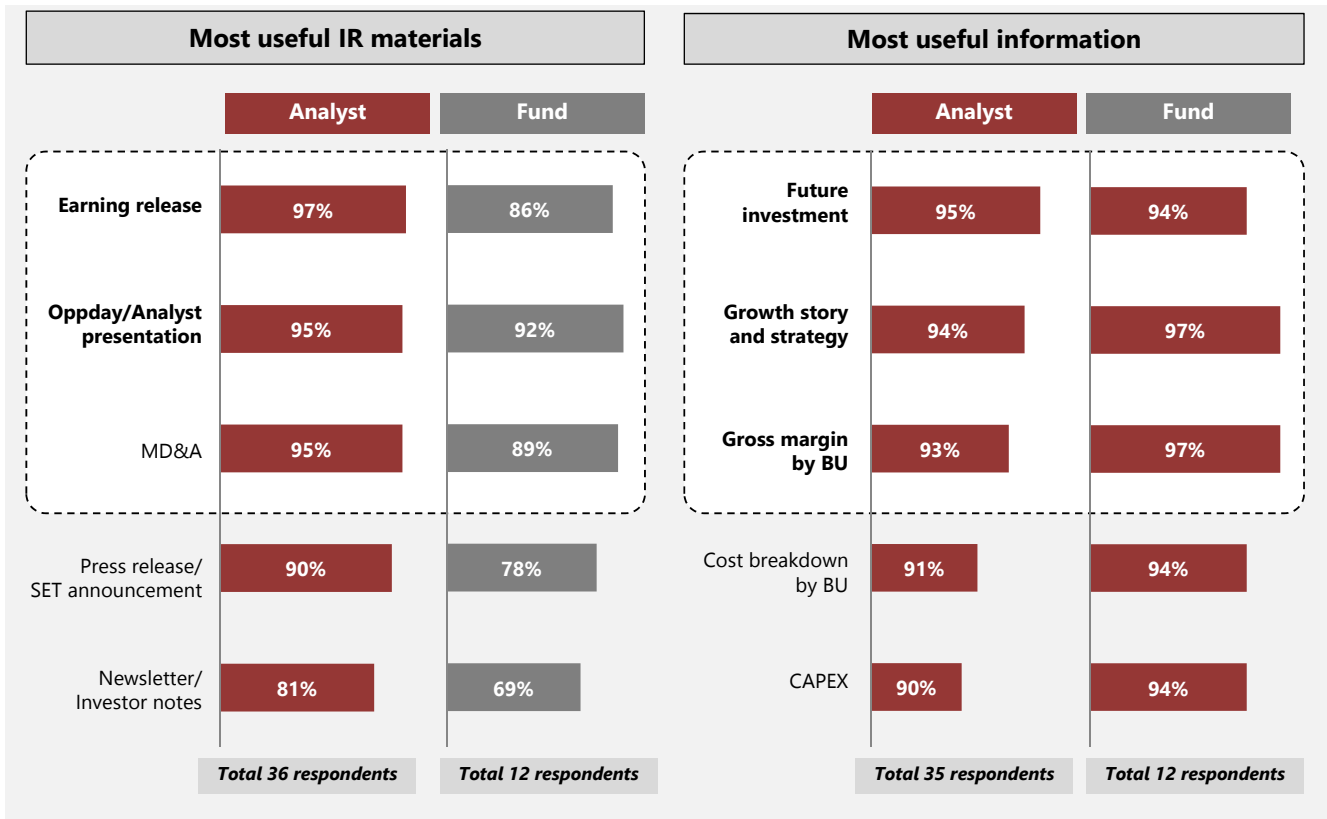
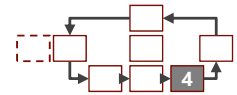
Source: Ernst & Young LLP 2008

Analysts and fund managers rate investor presentations as their most used IR website resource



Source: Rivel Research 2010

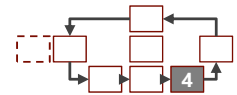
What information do analysts and investors require?



Source: PYI Market signal analysis



Pitfalls of analyst presentation?

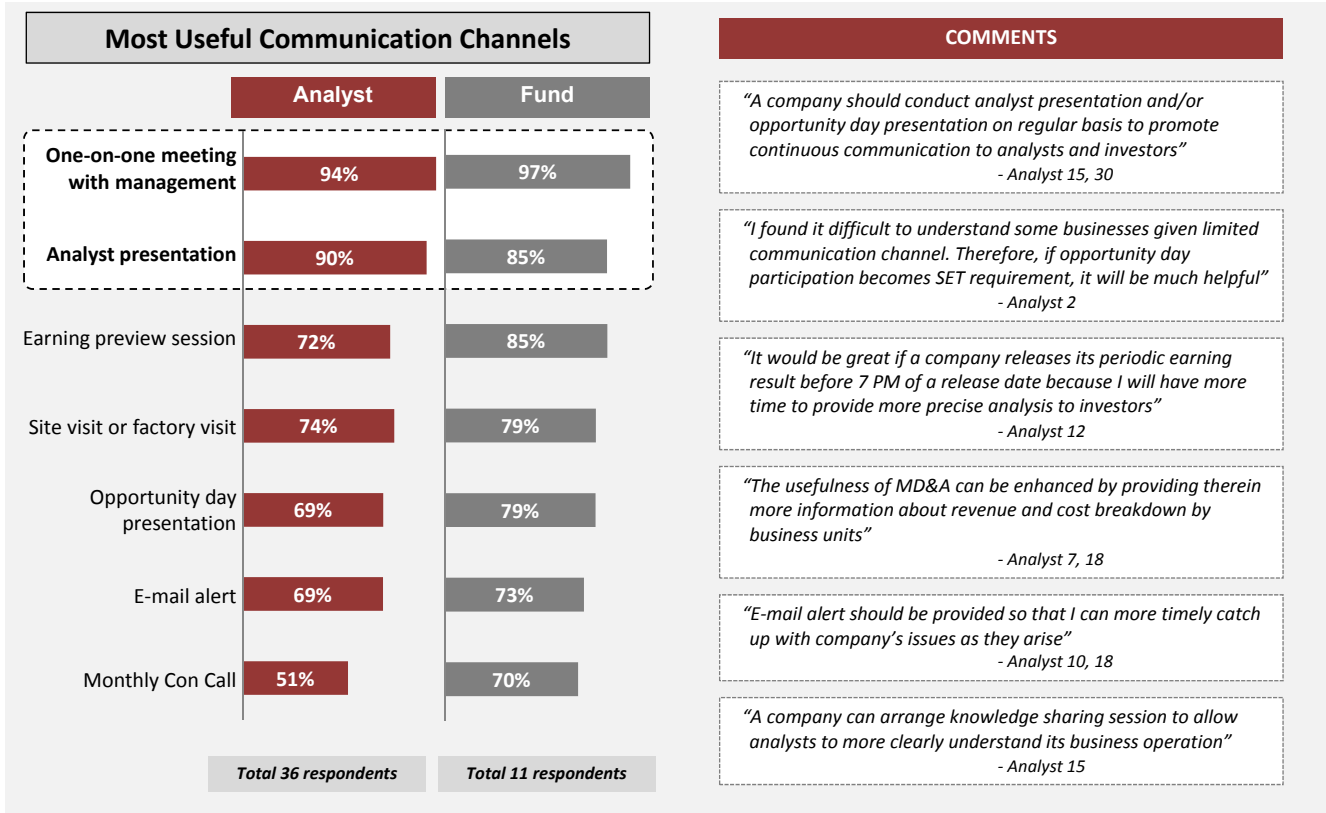
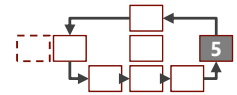


Story & structure	<ul style="list-style-type: none"> ▪ Lack of convincing storyline ▪ Not structure and illogical ▪ Lack of fact and/or rationale ▪ Sections of document are not clearly linked together
Management Communication	<ul style="list-style-type: none"> ▪ No clear messages ▪ In adequate support data ▪ Just present fact, no "so-what??"
Professional Organization	<ul style="list-style-type: none"> ▪ Not attractive & professional visual appeal ▪ Inconsistency in terms & reference ▪ Unclear graphs, misaligned text

Source: Adapted from www.thebusinessofmining.com



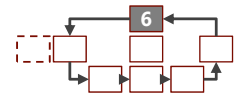
Access and delivery



Source: PYI Market signal analysis

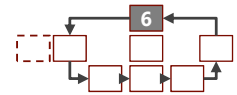


6. IR Intelligence



Feed back to encourage two-way communication	Report for all Senior management	Corrective & Actionable Measures
IR communication should be two-way; Company should actively seek feedback from investors on how they see the company's strategy and what their motivations and concerns are.	IR management reports should be made available to all senior managers so that they appreciate the way in which their decisions and actions are being understood and valued by the market	If problems or misunderstanding arise, further IR communication should seek to take remedial action by addressing any areas of misunderstanding or reconsider certain strategic moves if it is thought that the share price impact may be negative.





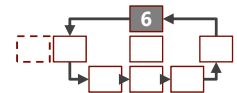
Feedback questionnaire

A SIMPLE LIST OF QUESTIONS

SUGGESTED QUESTIONS

- How would you rank the severity of the problems which Company ABC faces today?
- What do you think of Company ABC's new strategy of expanding in foreign markets like India and China?
- What do you think Company ABC's main challenges will be going forward?
- How would you rate the overall standard of Company's results presentation this quarter compared to the results presentations its main competitors?
- How could Company ABC improve its quarterly results presentations going forward?

Value of feedback: IR internal report



Reporting to CEO/CFO: the feedback presentation

Executive summary and list of analyst questions

Strategy & Operations

- The top concerns relate to the target market
- These two issues were also the ones where the turnaround was seen as having been most effective
- Balance sheet support is seen as the greatest benefit of having a strong shareholder
- All respondents agreed with the strategy outlined in the presentation

Investor Relations Program

- All respondents rated the presentation favorably compared to those of other similar companies
- All sections of the presentation received high scores, with the Project Updates section rated as the most useful

List of analyst questions during the results presentation

- Q1: What will be the impact of the new rules and regulations?
- Q2: What are your main customers looking for?
- Q3: How has your strategy changed over the years?
- Q4: What will be the gross margin on your existing projects?
- Q5: What are your expectations for each project?
- Q6: Which competitors do you see as the main threat to your business?
- Q7: Will you grow organically or through acquisitions?

Attendee profiles

Profile	Percentage
Analyst	37%
Deputy/Assistant Vice President (Research)	33%
Fund manager	8%
Vice President (Research)	22%

Total: 13 attendees

Firms represented

- Siam-Knight Fund Management
- Capital Nomura Securities
- AsiaPlus Securities (RBS)
- Credit Suisse
- Buaiuang Securities
- Thanachart Securities
- Ayudhya Securities
- Kim Eng Securities

Understanding the company

How would you rate the benefits of the new key shareholders?

Benefit Category	Very strong benefit	Strong benefit	Good benefit	Some benefit	Weak
International standards of corporate governance	30%	20%	30%	10%	10%
Balance sheet support	30%	20%	30%	10%	10%
Marketing synergies and expertise	30%	20%	30%	10%	10%
Management and development expertise	36%	19%	33%	12%	0%
Vision and strategy	18%	28%	35%	19%	0%

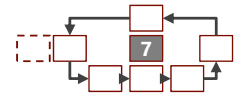
Presentation rating by section

How would you rate the different sections of the results presentation?

Section	Average score
Corporate structure	3.8/5.0
Strategy	3.8/5.0
Project updates	4.0/5.0
Market review	3.5/5.0
Financial review	3.5/5.0

Legend: 5 Very good, 4 Good/interesting, 3 Okay, 2 Weak, 1 Very weak

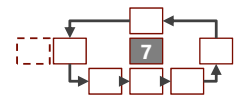
7) IRO abilities



“To be a good investor relations officer, you need to have a different type of skill set, like how to **communicate effectively with investors, how to **identify your investor...** and how to **effectively plan** for your roadshows to make sure you see the right investors.”**

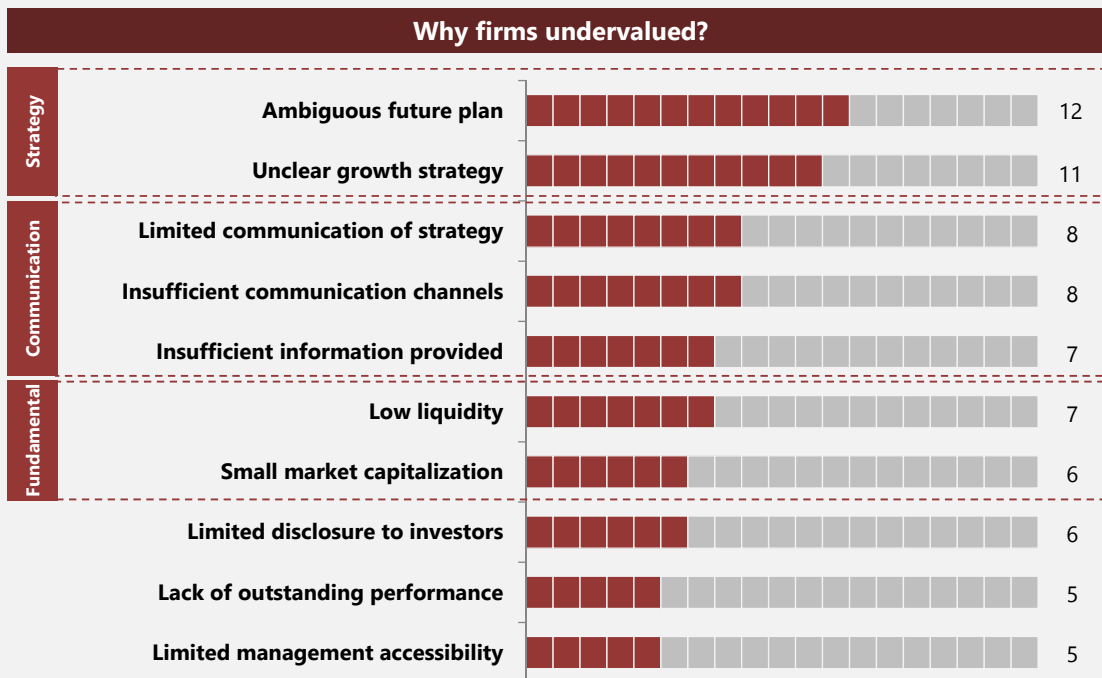
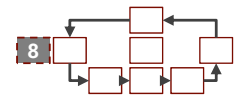
IRO of C.C. Land Holdings Ltd.,

7) IRO abilities



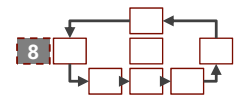
Hard Skills	Soft Skills
<ul style="list-style-type: none">• Financial communications• Accounting• Corporate finance• Financial analysis and modeling• Strategy• Legal• Writing • Public relations• Media relations• Administration• Banking (general knowledge)• Marketing• Equity trading• Economics	<ul style="list-style-type: none">• Credibility and integrity• Articulate speaker• Think strategically • Flexibility• Persuasive appearance• Analytical skills• Strong Networking capabilities• Loyalty• Team work• Organizational knowledge• Objectivity• Diplomacy• Selling skills

8) Corporate Strategy & Execution



Source: Adapted from www.thebusinessofmining.com

What is strategy??

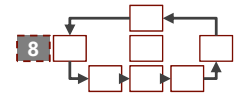


What is a strategy?

- A **unique value** proposition compared to other organizations
- Clear **tradeoffs**, and choosing what **not** to do
- Activities that **fit** together and reinforce each other
- **Strategic continuity** with continual improvement in realizing the strategy

Source: What is Strategy?, Michael Porter

This is not Strategy



- My strategy is 20/20 plan. Revenues were to grow at 20% a year, and the profit margin was to be 20% or higher.
- I will grow the market cap by 4 folds by 2015.
- We want to be number one or two in all the markets we operate in.
- Our strategy is to provide superior returns to our shareholders

Strategy as aspiration

- Our strategy is to merge the whole industry
- Our strategy is to expand our new customer base and product categories
- Our strategy is to outsource
- Our strategy is to double our R&D budget

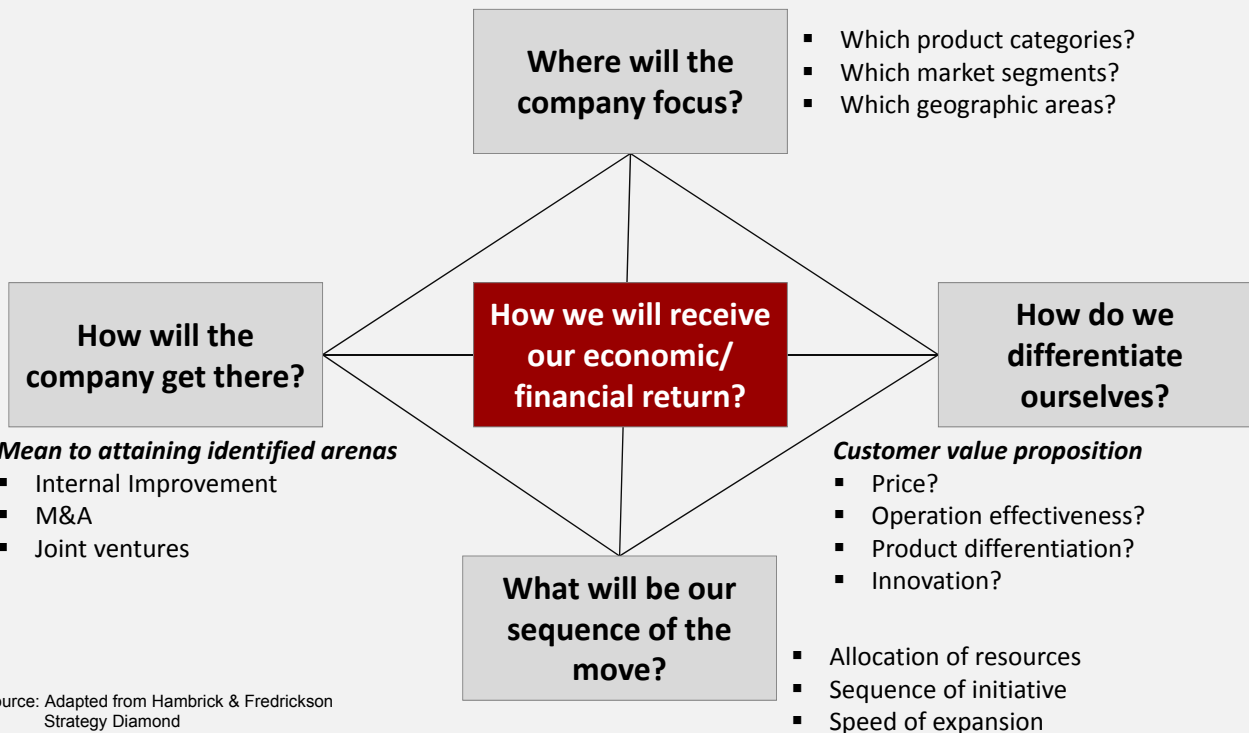
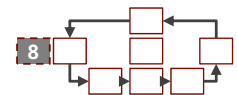
Strategy as action

- Our fundamental strategy is one of customer-centric intermediation.
- Our strategy is to provide superior products and services
- We are pursuing global strategy

Strategy as vision

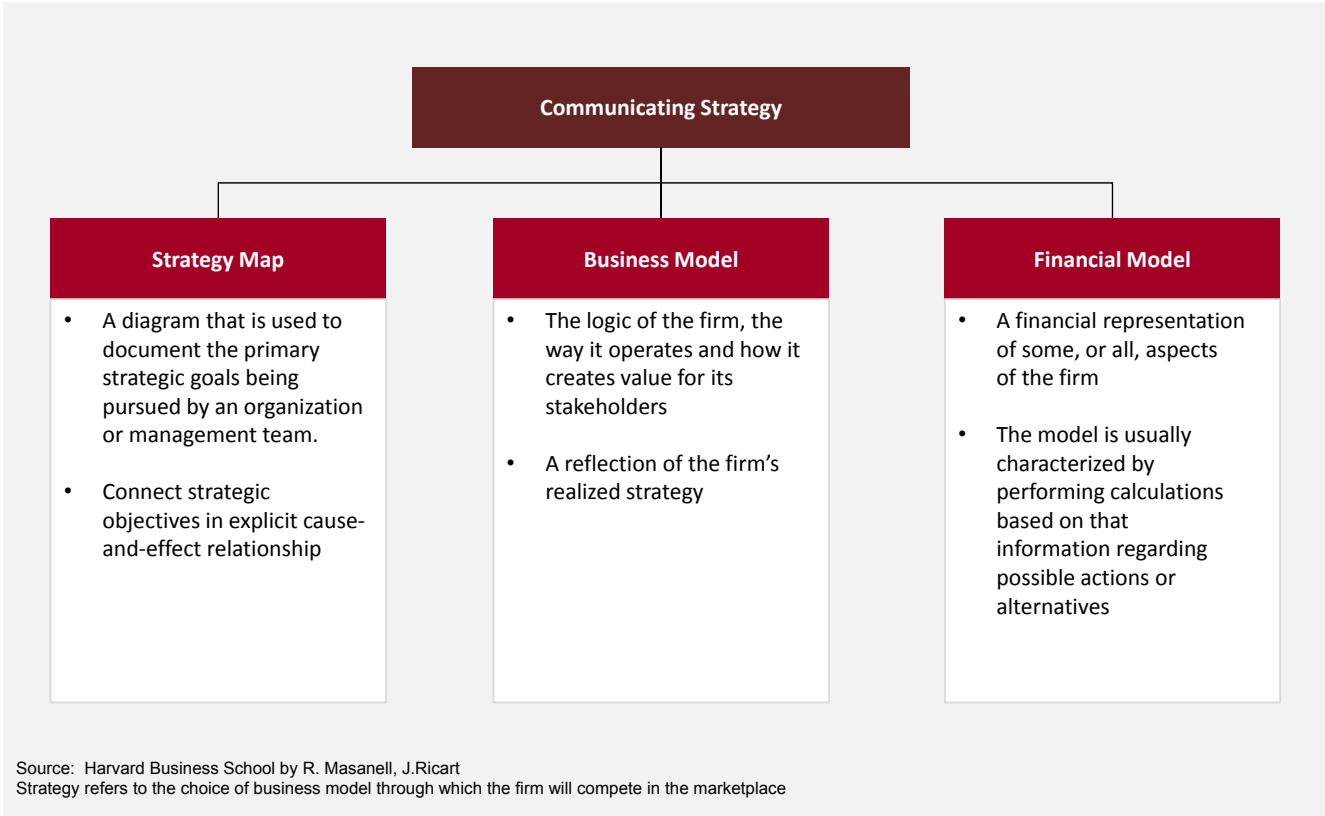
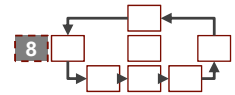
Source: Adapted from What is Strategy?, Michael Porter

Effective communication of strategy

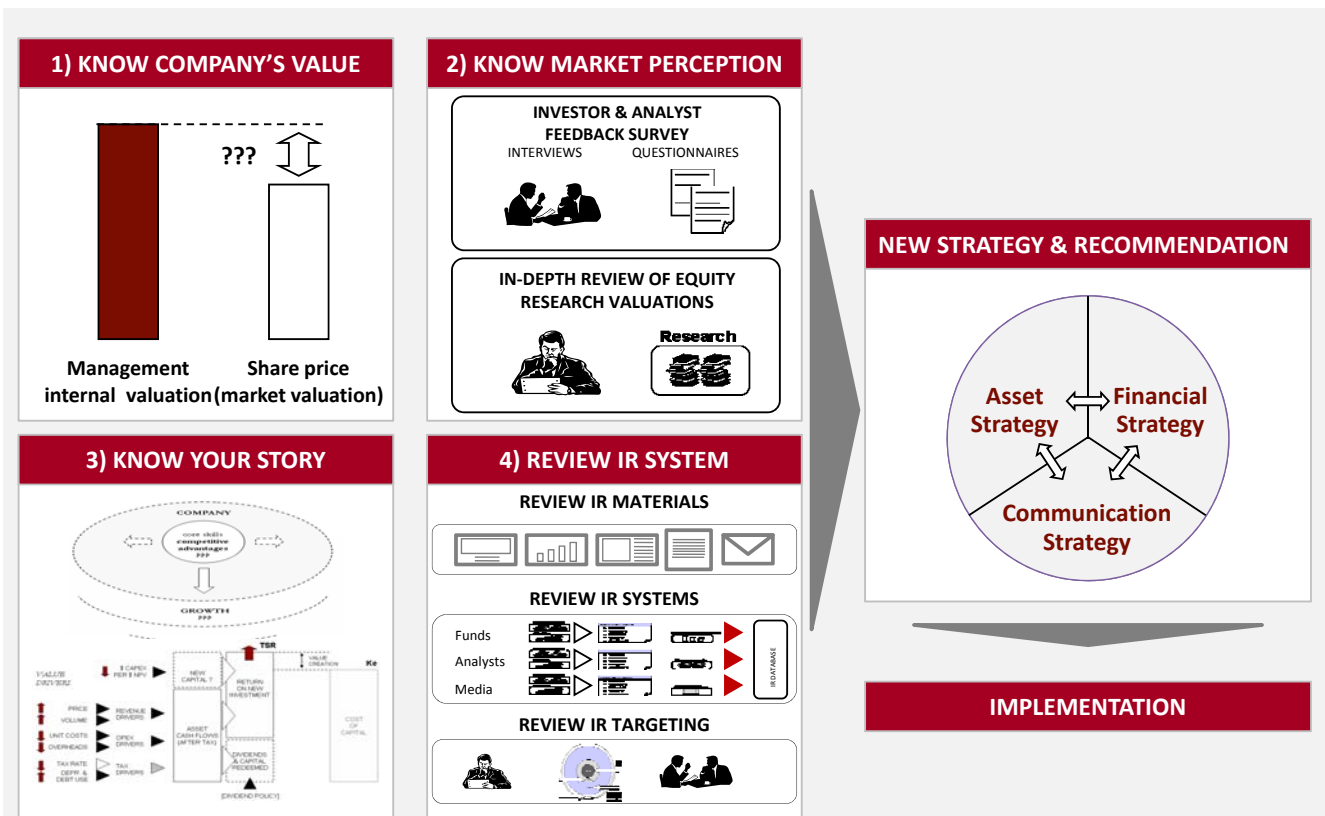


Source: Adapted from Hambrick & Fredrickson Strategy Diamond

There are three ways to communicate strategy



Four step approach to achieve 'Best Practice IR'



CONTENTS

1. Core principles of investor relations
2. Case studies for best practices IR
3. How to develop an effective investor relations
- 4. Current IR challenges**

What are the priorities of IR?

1	Quality of information	Transparency, relevance, completeness, consistency, and easy to understand
2	Accessibility of IR	Availability and responsiveness of IR and clear information of IR contact point
3	Ability of IR	Knowledge of IR Team, their understanding of investors' requirements and ability in handling difficult questions
4	Accessibility of management	Availability of management to schedule meeting, contact, and answer questions
5	Ability of management	Ability in executing strategy as said and managing investors' expectation
6	IR materials	Quality of IR presentation, earning releases, MD&A, IR webpage, annual report, etc
7	IR activities	Quality and quantity of analysts' meeting, roadshows, company visits, site visits, conference calls, etc
8	Feedback system	Available feedback channel, improvement of IR regarding to feedback

The IR challenge facing 'Big Caps'

"Misallocation of IR Effort"

- 1 Size often leads to decentralization
- 2 Management are unengaged and inaccessible
- 3 Insufficient benchmarking against global peers

The IR challenge facing 'Mid Caps'

"IR an after-thought"

- 1 IR is under-resourced
- 2 Insufficient attention paid to detail
- 3 Message confusion
- 4 Unclear strategy and direction
- 5 Lack of support data

The IR challenge facing 'Small Caps'

"Ignorant of IR Principles & Insufficient Resources"

1 Invisibility (small analyst coverage)

2 Low liquidity

3 Conflicting agendas

4 Lack of even basic IR knowledge

5 Unclear strategy and direction

6 Poor investor targeting

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