ABSTRACT The role of investor relations within an organization has rapidly evolved since its inception in the 1960s. The industry has had to quickly adapt to changing regulations, trends and skillsets, but the basic premise of IR has remained consistent: to be the primary channel through which a public company communicates with the investment community. Thomas Laughran, SVP & Partner at FleishmanHillard Chicago, walks readers through the history of investor relations, the complex requirements of the IR professional, and recent regulatory changes on social media that may or may not impact the industry.
A Brief History

Investor Relations (IR) is a unique, exciting, and value-creating function within a publicly traded company. According to the National Investor Relations Institute (NIRI), IR is a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company’s securities achieving fair valuation.

The practice of IR began in the 1960s as the economy flourished in the post-World War II era. More public companies were established, as were mutual funds, pension funds and insurance companies, along with the number of individual investors trading on various stock markets. Because of this expansion, there became a need for improved communications between investors and companies raising capital. For this reason, many of the first IR professionals were former business journalists. There was a growing need for companies to report financial and business results and at the time much of this was accomplished through newspapers and corporate quarterly and annual reports. In its early stage, the profession of IR needed people with strong business communications skills.

Through the late 1970s and 1980s, the mutual fund industry continued to expand as individual investors turned to professional management advisors for their investments. The IR position thus evolved to include people with strong financial backgrounds since senior managers and IR people were now interacting on a more direct basis with securities analysts and money managers. The IR professional needed to speak their language and have a strong working knowledge of financial reporting.

In the 1990s, IR continued to evolve with the explosion of the fund industry and the increasing number of publicly traded companies. At one point, there were more than 10,000 mutual funds and 10,000 publicly traded companies in the United States alone. The NASDAQ stock exchange rapidly grew its listing base with the tech boom and international investing began to take off. In addition, this was a time of rapid growth in the hedge fund industry. With all these new public companies competing for capital and professional investors having more investment options, IR professionals needed to have financial marketing credentials. They not only needed to be able to communicate in the financial language of analysts, but they needed to build awareness of their companies’ value proposition.

In the late ‘90s and early 2000s, regulation by the Securities and Exchange Commission (SEC) began to catch up with the evolution of the fast-growing financial markets. Unfortunately, some of this was brought about by a number of financial scandals that included Enron, WorldCom and legal actions brought by the New York Attorney General. This led to the implementation of Regulation Fair Disclosure, or Reg. FD for short, which required all IR professionals to become experts in new “fair” disclosure and communications practices.

Investor Relations Today

Today, the IR professional must have a broad base of skills and wear many related hats. While the function has evolved, the basic premise of the position hasn’t changed as the primary channel through which a public company communicates with the investment community. This communication is mainly with institutional investors, especially at larger public companies; retail investors in large companies are often handled by IR staff dedicated to communicating with them. At smaller public companies, this portion of a company’s shareholder base is often serviced by the IR function.

The IR person has a unique vantage point and serves a crucial function. As the gatekeeper of communication, their responsibility is mainly to communicate company information to investors and share the sentiment of investors with senior management since they are the first point of contact for investors. They listen to questions from investors and get a sense of how investors perceive the company, as well as management performance. For C-suite leadership, it is vitally important to know investors’ perceptions of the company, its performance relative to its peers and the perceived or actual job that management is doing in creating and maximizing shareholder value.

Looking at the big picture, a public company’s shares are for sale every business day. The price movement of a stock is relative to how investors believe the company has performed and is expected to perform in the future. In order for investors to make investment decisions, they have to believe that they have all the information necessary to make informed investment decisions and that it’s credible. Therein lies the value of a company’s IR team.

If investors think a company’s shares are fully valued, they are often likely to sell because the odds of it further going up are reduced. However, if they believe that the current price is undervalued because the market is not taking into account all the information available regarding future company
performance, they are likely to buy the stock. The IR function is always striving to make sure the company reaches a “fair and full valuation” by developing key investor messages, earnings news releases, earnings conference call scripts and related investor presentations. IR is also often responsible for crafting other investor-focused news releases, which can include news regarding acquisitions, buying or selling of assets, expansion efforts, distribution partnerships and actions by the Board of Directors, such as declaring dividends. They are responsible for making sure that current and potential investors, and the sell-side analysts that write research regarding the company, are fairly and fully informed.

In large part, this illustrates the communications and financial aspects of the IR position. The marketing aspect of the position has to do with finding and attracting new investors. When looking at a public company’s stock from a macro perspective, a company’s shares trade every business day and for every seller of the stock there is a buyer. If there are more buyers, or more demand for the stock, than sellers the price of the stock will likely go up. If there are more sellers than buyers, the price should move down. It’s a simple economic supply and demand equation.

The IR function’s responsibility is often to create demand for the company’s stock by targeting investors the company would like to have as shareholders. This can involve engaging preferred current shareholders that have small positions to invest more. Of course, the marketplace sets the share price, so the IR function’s effectiveness should not be judged by the stock price alone. There are too many macro-economic factors outside the IR person’s control to peg performance solely to stock price. However, an effective IR program is always trying to cultivate a pool of potential buyers and for the stock to be trading at a reasonable valuation based on its business performance.

Remember, given the dynamics of the market, if a mutual fund manager decides that a stock is fully valued or that they believe the time is right to rotate out of a sector and sell shares within the sector, it doesn’t matter what IR communicates or what the outlook for the company is – the fund manager is going to sell their position. The only thing IR can do is generate interest from other preferred investors that would find the current climate favorable to their company’s stock.

**Useful IR Resources**

IR professionals have many tools they can use in their constant search for new investors, such as online targeting programs that can sort and search the vast institutional investor databases by investment styles. They can also search by portfolio turnover, peer holdings or by size or type of institution such as mutual fund, insurance company or hedge fund. Another source for assistance is utilizing the institutional sales departments of the firms whose analysts write research about the company. These “covering” firms will often hold investor conferences and invite their institutional clients to hear presentations and conduct one-on-one meetings with the management teams of companies that they invite to present. These are often opportunistic forums to pair investors with companies. Investors get to meet many companies over the course of a day or two and for management teams to meet with many investors all in one location.

**Fair Disclosure**

It is highly recommended and considered a fundamental best practice for the IR person to be present any time that a member of the senior management team is having a conversation with investors so that the company is in compliance with Reg. FD. The basic premise of Reg. FD is that all new material information must be disclosed in a public manner, such as a news release or conference call, and all investors must have access to the information at the same time. If the CFO is having a one-on-one conversation with an investor either on the phone or in person, IR should be present to make sure that no new material information is disclosed. If it is, IR is responsible for disseminating a news release within 24 hours, so all investors have access to the information. They should also inform the investor at the point that they are now in possession of material information and that they should not buy or sell the stock until a news release is issued.

Selectively disclosing material information creates an advantage to investors that have the information. If it becomes known that the investor traded on the information, it can lead to regulatory actions by the SEC and expose the company, management and/or the Board to litigation. It is critical that IR professionals at all times are aware of what type of inside or material information has already been disclosed and counsel senior management on best practices when interacting with investors.
The Intersection of Investor Relations and Social Media

The latest regulatory action that is impacting IR is the ability to utilize social media as a channel of communications. On April 2, 2013, the SEC stated via a news release that companies may use social media channels to announce key information. Specifically, the SEC issued a report “that makes clear that companies can use social media outlets like Facebook and Twitter to announce key information in compliance with Regulation Fair Disclosure (Regulation FD) so long as investors have been alerted about which social media will be used to disseminate such information.”

What this means is that it is the responsibility of the company, and not the SEC, to conduct this analysis and determine if using social media and/or its company website as a means for disseminating material or key information satisfies Regulation FD disclosure requirements.

So what does this mean for the IR professional? Social media channels have the potential to reach more investors and engage with them as never before. However, it also has to be used carefully, strategically and with the complete buy-in of senior management and legal counsel. The first step is for the IR function to complete the above analysis and determine if their social media channels and website meet the Reg. FD criteria for disclosure. Next, they should issue a news release on the newswires stating that the company will be using its social media channels to distribute material information.

Companies should notify their investors that only “corporate” social media channels will be used to disseminate material key news or information. IR needs to stress with management and company employees that personal social channels cannot be used by company executives to disseminate key information, even if they have a wide following. Investors should not expect company news to be released by an individual instead of the company.

If the analysis determines that the company’s social media channels are not robust enough or do not have enough investors following them to provide a level of comfort that they would meet Reg. FD requirements, they can still use social media channels. The company can still follow current protocols of issuing a news releases on a wire service, filing a Form 8K with the SEC, and then tweet a link to the release, post the release on its website and/or company Facebook page or other social media channels. This could be a great way to build up a following by its investor base.

There are a couple of factors that can impact this analysis. If a company has a “bell-weather” profile where their stock is a must follow, like a Google, Apple or McDonalds, they are likely to be highly visible. However, if the company is a small-cap stock with little research coverage, the likelihood that it would have a deep enough following to rely solely on social media as a means of disseminating news and meeting Reg. FD requirements would be highly risky. For these companies and their IR staff, following more traditional ways of releasing news is recommended.

The other factor impacting the use of social media is the fact that many investment firms and brokerage firms restrict the use of social media at the work place. So, if the investors you are trying to reach can’t access the channels IR is using, then the impact is greatly diminished and less effective. This should also factor into the analysis that IR conducts when determining the best uses of social media for interacting with investors.

As you can tell, the investor relations function at a company is constantly evolving and requires many skills. It is an exciting position that allows the IR professional to see deeply into the organization and understand what drives the business from all aspects. In addition, IR in many respects becomes the trusted face of the company to investors and is an important confidant to senior management by providing valuable insights into the markets.
about the AUTHOR

Thomas J. Laughran is a global co-chair of FleishmanHillard’s global financial communications - investor relations practice group. Mr. Laughran has 20 years of experience in providing award-winning financial and strategic communications to companies ranging from small start-ups to major corporations. His diverse industry experience affords clients a multi-dimensional perspective on financial communication issues, challenges, and solutions. He has developed and executed programs for more than 100 companies and provided senior level counseling on IPO and M&A execution, strategic positioning, messaging, and investment banking.

Mr. Laughran’s in-depth knowledge includes investor relations techniques and practices such as financial and business media relations, key investor message development, transaction, and IPO communications. Mr. Laughran has a particularly strong background in providing investor relations counsel to public companies of all sizes having worked with ADC Corp., Altair Nanotechnologies, Buffalo Wild Wings, Career Education Corp., Cubist Pharmaceuticals, Energizer, EnerNoc Inc., Great Wolf Resorts, Hittite Microwave, Jazz Pharmaceuticals, Navistar, Viastem, Viasystems, Northfield Laboratories, USF Corp., Vale and Zimmer Holdings.

Mr. Laughran served as lead investor relations counsel for Viasystems, during its acquisition of Merix Corp and then immediate IPO resulting in a combined company with a $360 million market cap. In addition, he served this same role for EnerNOC, Inc. during its $100 million IPO in May 2007. He also served in that role for USF Corporation during its acquisition by Yellow-Roadway and Lands’ End during its acquisition by Sears. In 2001, Mr. Laughran was one of the leading members of the Fleishman-Hillard award-winning team that launched the $5.3 billion Zimmer Holdings spin-off from Bristol Myers-Squibb.

Tom also has worked with Boards of Directors on communication strategies surrounding CEO transitions, corporate governance and proxy related issues. Mr. Laughran has counseled companies including: ADC Corp., Career Education, Marathon Petroleum, MOSAID, SeraCare Life Sciences and USF Corporation.

Mr. Laughran earned a Bachelors of Science degree in finance and a Master of Business Administration from DePaul University. Mr. Laughran earned the Claritas® Investment Certificate from the CFA Institute. He is on the Advisory Board of the National Investor Relations Institutes (NIRI) Chicago Chapter, is a member of the Financial Communications Society and is a founding member of DePaul’s Circle of Finance Opportunities alumni organization.