INVESTOR RELATIONS MEETINGS:
Views of Companies, Institutional Investors and Analysts

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INVESTOR RELATIONS MEETINGS:

VIEWS OF COMPANIES,

INSTITUTIONAL INVESTORS AND ANALYSTS

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FOREWORD

The communications carried out between companies and their investors as part of the investor relations process have increased in importance as capital markets have become more sophisticated. A key part of a company's investor relations programme is the meetings it holds with its major investors. The issue of investor relations meetings is, therefore, of great importance to capital market regulators, accountancy bodies and policy makers.

This research report is published by the Research Committee of The Institute of Chartered Accountants of Scotland as a contribution towards understanding how changes to the legal and regulatory environment have affected people and organisations in the course of carrying out their investor relations activities. In addition, it is hoped that these research findings will contribute to the continuing debate surrounding the costs and benefits of regulation both in society in general and capital markets in particular. It is also hoped that the report will help inform future changes to the system of regulation.

Findings and recommendations contained in this report are based on interviews with finance directors or investor relations officers of FTSE-100 companies, and with institutional investors and sell-side analysts. The focus of discussion was investor relations meetings.

Professor J Baillie  
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EXECUTIVE SUMMARY

Investor relations has increased in importance in recent years. As the capital markets have become more sophisticated, companies have increasingly devoted resources to investor relations. A key aspect of a company's investor relations programme is the meetings it holds with institutional investors and sell-side analysts. These meetings can be divided broadly into general meetings, catering to an audience drawn from different organisations, and one-to-one meetings, for individuals or small groups from one organisation. The conduct of these meetings is regulated by the insider dealing laws, the London Stock Exchange listing agreement rules relating to keeping the markets informed and its Guidance on the dissemination of price sensitive information. The 1990s have seen changes in the law and the introduction of the new guidance.

This research is based on the findings of interviews with ten finance directors or investor relations officers of FTSE-100 companies, with six institutional investors and with six sell-side analysts working for firms of stockbrokers. Interviews were conducted in the period June 1996 to May 1997.

The focus of discussion was the topic of investor relations meetings. The intention was that the interviews would provide insight into the current practice of investor relations meetings from the perspectives of the three main groups of participants.

Interview findings

The findings are presented by reference to the following themes:

- Current practice in organising investor relations meetings;
- Importance of meetings in the investor relations process;
- Reasons for holding and attending meetings;
- Topics covered in meetings;
- Benefits of attending meetings; and
- Advantages and disadvantages of holding meetings.
Executive Summary

Current practice in organising investor relations meetings

The chief executive, finance director and investor relations officer formed the core team for the majority of general and one-to-one meetings. Other key executives and external advisers were involved in presentations at selected meetings where their input was needed.

Eight out of ten company respondents kept records of the proceedings of meetings. Recording procedures, however, varied depending on the type of meeting and the individual respondent.

Importance of meetings in the investor relations process

All three groups of interviewees agreed that meetings were important. It appeared that the different types of meetings had evolved to meet the needs of the companies and the audience. A general meeting is a time efficient way of disseminating a standardised message to a group. A one-to-one meeting is flexible and tailored to meeting specific information needs. In addition, site visits satisfy the desire of institutions and sell-side analysts to look inside the business and meet operating managers.

Meetings, however, cannot be viewed in isolation because the interviews brought out the importance of telephone calls both in the context of following up points raised at meetings and as a substitute for meetings.

The research activities of the sell-side and buy-side analysts can be seen as complementary in improving the market's understanding of the company. The sell-side analysts were more interested in obtaining information which would help them to generate commissions for their firm whereas the institutional investors were more focused on understanding the company.

Reasons for holding and attending meetings

Companies held meetings to meet a perceived demand and to maintain contact with the market. General meetings were held by all respondent companies to discuss half year and final results. Companies held other general meetings throughout the year when necessary.
There were differing preferences for the timing of one-to-one meetings. Some respondents preferred having meetings mid-period because they would not be dominated by recent results and would focus more on general issues.

One-to-one meetings with major institutional investors were held once or twice a year as a matter of good housekeeping. The sell-side analysts only requested one-to-one meetings for a specific purpose.

Company respondents maintained lists of analysts following their company and contacts at investing institutions. Shareholder analysis and targeting were used to manage the market for shares. Companies tried to arrange meetings with potential investors and made use of stockbrokers to identify reasons for non-investment. However, they tried to treat everyone equally in terms of invitations to general meetings and attempted to accommodate all requests for one-to-one meetings.

**Topics covered in meetings**

Items discussed in meetings included the financial results in the light of business conditions. Strategic issues were also important. Some meetings concentrated on company specific events such as takeovers. All participants agreed that topic coverage was restricted to information that was not price sensitive. Topic coverage varied according to the type of meeting.

Interviewees indicated that companies in general had increased their disclosures overall, either in their annual report or elsewhere, in response to the new insider dealing legislation (Great Britain, 1993, Criminal Justice Act) and London Stock Exchange Guidance (1994, 1995 and 1996).

Not surprisingly, there was no support for more restrictive regulation of investor relations meetings. It was believed that one-to-one meetings were essential. Some respondents were in favour of stronger enforcement of existing rules. They noted that enforcement was not always carried out in respect of well-publicised information leaks. The institutional investors and analysts were required to follow the compliance procedures of their firms and the general feeling was that this offered them reassurance and helped to protect the reputation of their firms.
There was general agreement that meetings were costly in terms of management time although the financial costs were less of a burden. There were risks involved in possibly releasing information to competitors and accidentally making someone an insider. All groups agreed these risks existed but it was considered that companies could use the competitive disadvantage argument as an excuse.

Recommendations

The research identified a number of findings relevant to the way in which companies could improve their investor relations procedures. Based on the findings of the research the following recommendations are proposed:

Increasing the transparency of the investor relations process

- **Companies should publicise dates of investor relations meetings and conference calls in advance and make available company fact books, presentation material, minutes of questions and answer sessions and conference calls.** Minutes would have to be edited in certain cases to preserve confidentiality.

- **Fact sheets should be issued when new information has been released.** This will enable companies to release information at the request of analysts without accusations of unfairness.

- **Companies should keep a file of all analysts' reports and details of the consensus forecast and provide access to individual investors.** This will help to counter criticisms that analysts are unfairly privileged at the expense of individuals.
Executive Summary

Enhancing the timeliness and completeness of information

- The Internet and e-mail should be used to enhance the timeliness and completeness of information available to all investors. If companies provide instant electronic access to all corporate information and data, including any information provided in meetings, via the Internet and e-mail, then all investors will be on a more equal footing.

- The availability of and the method of access to, additional information should be publicised in reports to shareholders. This will be useful for individual investors who may not have much time to devote to research and searching for information.

Forward looking information

- Forward looking information provided in meetings should be provided in the annual report in the operating and financial review. This would help to satisfy the desire of investors and analysts for information about the future and might lead to fewer requests for such information in meetings. There might, however, merely be an increase in requests for extra forward looking information which is not already in the operating and financial review.

Improving the impact of the investor relations programme

- Presentations at meetings should be well prepared and executives should develop their skills as presenters. Presentations at investor relations meetings should be professional but not too slick as the audience sees this as detracting from the sincerity of the message.

- Management teams should demonstrate their quality by preparing a plan. Companies should prepare a statement of where they are now and where they are planning to go in the future. They should update their position on the plan at regular intervals in meetings with institutional investors.
• Management teams should demonstrate a good rapport with each other. They should not contradict each other in investor relations meetings as this creates a bad impression.
CHAPTER ONE

AIM OF THE SURVEY

Introduction

This report is part of a continuing investigation into corporate communications carried out as part of the investor relations process. The report presents the findings of interviews with finance directors or investor relations officers in FTSE-100 companies, with analysts or investment managers working for institutional investors and with sell-side analysts working for firms of stockbrokers. The focus of discussion was the topic of investor relations meetings.

The intention was that the interviews would provide insight into the current practice of investor relations meetings from the viewpoint of the participants and also enable similarities and differences to be evaluated.

The issue of investor relations meetings is of great importance to capital market regulators, accountancy bodies and policy makers. The interview findings are of importance in view of changes to the legal and regulatory environment. It is useful for regulators and policy makers to be able to assess how changes have affected people and organisations in the course of carrying out their activities. There is a continuing debate about the costs and benefits of regulation both in society in general and in the capital markets in particular. This survey contributes evidence to that debate and helps inform future changes to the system of regulation.

The survey is also relevant to the subject of stock market efficiency. If markets are efficient all available information will instantaneously be compounded in the share price and an individual using skill and judgment will only be able to outperform the market by chance. A great deal of empirical work has been carried out testing whether and to what extent markets are efficient and investigating pricing anomalies (Keane, 1983). This qualitative survey looks at the participants who are involved
collectively in setting the market price. Investor relations meetings are one way of placing information into the market. This study provides some insight into the way in which company information is sought out, processed and used in investment decisions and therefore in setting the share price.

**Previous survey**

In 1996 The Institute of Chartered Accountants of Scotland published a research report *Investor Relations: Meeting the Analysts* which reported the results of a 1991 postal questionnaire survey of large UK quoted companies (Marston, 1996a). The report dealt with the way in which companies organised their meetings with analysts and investing institutions, the matters discussed and opinions about the value of meetings. The results presented in the research report were a subset of the results of a comprehensive survey of investor relations (Marston, 1993, 1996b, 1997a, 1997b).

The 1991 survey results led to four recommendations in respect of investor relations meetings:

- Care should be taken to avoid the release of price sensitive information and to comply with law and regulation.
- Investor relations meetings should be encouraged by the authorities as companies found such meetings very valuable.
- There should be a period of stability to allow companies to adjust to the new laws and regulations introduced since 1991.
- Companies should keep detailed records of all meetings and increase public access to these records. They should consider using the Internet in this context.

**Current survey**

The survey described here followed up the 1991 survey but used interviews rather than a questionnaire to investigate investor relations meetings.
An interview approach was used because this enabled a richer and more complex picture to emerge. The previous questionnaire involved respondents answering yes/no questions, ticking boxes and providing information such as numbers of meetings held. There was only a limited number of questions requiring qualitative response. A questionnaire is useful in that it enables a large number of respondents to be surveyed but it cannot capture the real complexity of the situation. Interviews have the advantage of allowing the respondents to express their own experiences in a less structured way. One disadvantage of using interviews is that it is not possible to survey large numbers. Also the data obtained is less amenable to simple quantitative methods of analysis. In this case, as a postal questionnaire survey had been used before, the interview approach was chosen to benefit from the advantages of both methods.

The decision to interview three groups was taken in order to enhance overall understanding of investor relations meetings. In the 1991 survey only companies were asked for their views. More recently, Holland (1997) interviewed finance directors and senior officials. There was also a certain amount of published commercial research which looked at the views of the audience for the investor relations process (Taylor Nelson, 1989). Academic research has also looked at analysts’ use of information, including meetings with companies (Arnold and Moizer, 1984; Day, 1986; Lee and Tweedie, 1981; Moizer and Arnold, 1984). It seemed to be advantageous to incorporate the company view and the audience view in one research project as this would add a unique feature. Rather than concentrate on one sub-group of the audience there seemed to be a good case for interviewing both representatives of investing institutions (the buy-side) and sell-side (brokers’) analysts. It was also decided to match the sample of companies with institutional representatives and sell-side analysts who were following the companies interviewed. The results of the 1991 survey showed that companies viewed their relations with both groups as being very important and it was hoped a more complete and complex picture would be obtained by interviewing three groups.

The key research questions for the survey will be discussed in a later section after first looking at the legal and regulatory environment and recent research.
Changes to the legal and regulatory environment

The rules regarding what can and cannot be said at investor relations meetings are found in a number of places. Companies must comply with the requirements of the London Stock Exchange Listing Agreement and make announcements when required to the Company Announcements Office. They should also avoid making either an investing institution or a sell-side analyst a recipient of price sensitive inside information as subsequent use of that information could lead to a prosecution under the insider dealing provisions of the Criminal Justice Act 1993 (Great Britain, 1993). The new laws were enacted on 1 March 1994 and superseded the provisions of the Company Securities (Insider Dealing) Act 1985 (Great Britain, 1985). The London Stock Exchange introduced its 'Consultative document on the dissemination of price sensitive information' in November 1993 and the Guidance on the dissemination of price sensitive information was issued in February 1994 and revised in January 1995. According to the Financial Communications Committee (1995, p 12) and other commentators this guidance was prompted by the legal proceedings which raised questions about insider dealing in March 1993 (Pescod and Robarts, 1993) and the London Stock Exchange censure of a listed company in May 1993 (Foster, 1993).

A more detailed discussion of the legal and regulatory framework can be found in Appendix 1 and in the aptly named Through the thicket by the Financial Communications Committee (1995). The interviews reported here were conducted in 1996 and 1997 by which time all participants would have had time to adjust to the changed regulatory regime.

Recent research

In 1994 a joint City and Industry working group was established under the chairmanship of Paul Myners (1995) of Gartmore plc. This group was established with the encouragement of the Innovation Unit of the Department of Trade and Industry and its terms of reference were:
To suggest practical ways in which the relationship between UK industry and institutional shareholders can be improved as a stimulus for long term investment and development.

The report outlined the investor relations strategy of a model company and the role of the model institution as shareholder and portfolio management company. This report saw one-to-one meetings as being a desirable part of the investor relations programme:

One-to-one meetings are a further opportunity for managers to explain their strategy and objectives for the business and to answer questions from the company’s owners and potential investors.

This report indicates the continuing interest of the government, industry and investors in improving the investor relations process within its legal and regulatory framework.

The debate about investor relations practices is not confined to the UK. The Toronto Stock Exchange (1995) prepared an interim report of the Committee on Corporate Disclosure. This included a section on equality of access to information (paras. 7.26 to 7.47) which looked at one-to-one meetings and general meetings. It made the following recommendations:

- companies should encourage group meetings with analysts rather than individual meetings;
- supplementary data books containing, to as great an extent as possible, the type of detail that is traditionally sought by analysts should be made directly available on request to all analysts and shareholders;
- the availability of and the method of access to additional information should be publicised in reports to shareholders;
- retail investors should have access to group meetings of analysts either by recording the meeting and providing a telephone line or by providing electronic access to minutes; and
- companies should provide electronic access to corporate information and data.
The first suggestion would be seen as controversial in the UK where one-to-one meetings are valued highly (see Marston, 1996a and the results chapters of this report). The suggestions designed to increase access to information for all shareholders would be fairly easy to implement in the UK especially in view of the growth of the Internet.

Sciteb (1995), a consultancy firm, produced an *Industry/City Dialogue Guide* in conjunction with several quoted companies and institutional investors. The guide aimed 'to improve dialogue between industrialists and those professionals who are responsible for forming judgments on the value of a company'. It covered investor relations policy, on-going company dialogue including site visits, judgment in the disclosure of information and arrangements for the results meetings. The guide set out 'best practice with clearly articulated mutual obligations' which are in addition to the 'understood statutory and regulatory requirements'. At the time of writing it was not clear whether this guide had had any significant impact.

A number of interviews with finance directors were undertaken by Barker (1996) for a survey entitled *Financial Reporting and Share Prices: The Finance Directors' View*. His results contained some findings about investor relations meetings. He established that 'considerable time and effort is committed by very senior management to the process of investor relations'. The finance directors in his sample underlined the view that there should be no surprises and that an open disclosure policy is welcomed by investors.

Since the Accounting Standards Board (ASB) (1993) introduced the voluntary operating and financial review (OFR), there has been some research into this new area of financial reporting. Weetman and Collins (1996) have suggested that companies should consider including items of information that are provided in one-to-one meetings in the OFR. Companies should also ask whether forward looking information provided to shareholders and their advisors in meetings should be provided in the OFR.
A major piece of research, *Corporate Communications with Institutional Shareholders: Private Disclosures and Financial Reporting* has been carried out by Holland (1997). A number of interviews were carried out with finance directors and senior personnel of FTSE-500 companies. The interviews identified and explored the following topics:

... the aims and constraints of the corporate communications process; the information agenda of company meetings; the costs and benefits of disclosure; dynamic exchange and learning between companies and institutional shareholders; voluntary disclosure; and the interaction between public domain and private communications.

Holland's survey was similar in some ways to this survey although it was restricted to company respondents. Although some of the topics covered were the same, the focus of this project was on meetings whereas Holland looked at the whole corporate communication process between companies and their institutional investors. Thus the two projects are complementary and many results are common to both. This is useful because qualitative research in the area of finance is still fairly undeveloped.

Holland (1997) developed a static and a dynamic model for the process of corporate communication and suggested that increased transparency of the private exchange process may be required as a matter of public policy.

In respect of his static model Holland (1997) stated:

... each company adopted its own variant of a high quality process of corporate communication with institutional shareholders. This included active voluntary disclosure through private and public disclosure channels and the rapid release of price sensitive information into the public domain ... The unifying themes constitute a model of corporate disclosure.

The dynamic model of corporate private and public disclosure contained the following interpretation:
... senior executives pursued public disclosure as a rational response to market incentives and external pressures. Public voluntary disclosure was conducted up to (or towards) the point where it was thought to be sufficient to legitimise additional private disclosure around the same public information.

In addition to recent research and committee reports, the occasional news item in the financial press has drawn attention to the importance of investor relations. Green (1997) writing in the Financial Times described the reversal of Glaxo Wellcome's decision to appoint Sean Lance as chief executive and offered the following explanation:

Analysts, however, pointed to Mr Lance's low-key performances in front of institutional investors and analysts over the past few months ... At the company's interim results presentation in July, he surprised analysts and the press by answering questions in a diffident manner, his voice barely audible.

There appears to be a growing interest among the business and investing community and academic researchers in the subject of investor relations. The introduction of new regulations, as outlined above, may have increased the attention paid to investor relations. Additionally there is an increasing trend towards greater disclosure by companies. This may be in response to the fact that capital markets are becoming increasingly globalised and that competition for capital in the market place is an important factor for more and more companies.

Research themes

The six key themes addressed by this research report are:

- Current practice in organising investor relation meetings;
- Importance of meetings in the investor relations process;
- Reasons for holding and attending meetings;
- Topics covered in meetings;
- Benefits of attending meetings; and
- Advantages and disadvantages of holding meetings.
The first theme was addressed in the advance questionnaire, while the other five themes were addressed in the interviews. The interview agenda contained five questions for each group of respondents: company finance directors or investor relations officers; institutional investors; and sell-side analysts. The questions were intended to be fairly broad to encourage wide ranging discussion. Interviewees were provided with the following definition of meetings:

*Meetings are broadly defined to include 'general meetings' for delegates from different organisations and 'one-to-one meetings' for individuals or small groups from the same organisation. Meetings can have a number of different purposes. These include routine meetings such as results announcement meetings, site visits and regular visits by institutional investors. Meetings can also be held in special situations. These include meetings to make important announcements, meetings connected to capital issues and meetings concerned with takeovers.*

In addition to the main interview questions, companies were asked about the team of executives and outside experts (for example, external financial public relations consultant, merchant banker, company broker) that might be in attendance at some or all of the meetings. Companies were also asked about their procedures for recording meetings. All three groups were asked to provide some data on the number of meetings and companies were asked to give an indication of the size of the audience. This was done by means of a one page advance questionnaire.

**The interview agendas**

This section discusses the rationale for asking the interview questions.

**Importance of meetings in the investor relations process**

Questions mirroring each other were asked of companies and institutional investors and sell-side analysts.
Company interviewees were asked: *How do meetings with analysts and institutional investors fit into your overall programme of investor relations?* This was intended to allow the company respondents to expand upon their investor relations programme in general and to describe how meetings fit in with other types of communication such as telephone calls. It was hoped that the interviewer would gain an insight into the timing of meetings within the financial calendar and establish the various different types of meetings held. The previous questionnaire survey had subdivided meetings into two broad groups, general and one-to-one meetings but the interview approach enabled a subtler picture to be obtained and companies could elaborate upon their differing procedures for results announcements, special events, site visits, roadshows etc.

Institutional investors and sell-side analysts were asked: *How do meetings with companies fit into your overall programme of company research?* This mirrored the first question to companies. It was hoped that respondents would expand upon the different types of meeting and their other methods of communication with companies such as telephone calls.

**Reasons for holding and attending meetings**

The question to companies was: *How does your company decide on the number of meetings to hold and which analysts and institutional investors to invite?* This was intended to fill in any details that had not been covered in the answer to the first question by asking specifically about how companies decided to hold meetings and whom to invite. It was hoped that the responses would show whether some meetings were viewed as an unavoidable part of a regular routine and whether companies had any choice in deciding whom to see in one-to-one meetings. It was also hoped to establish whether there was use of league tables by companies and whether less important institutions and analysts perhaps received less attention. Another issue of importance here was that of targeting, in other words, whether companies were seeking actively to broaden their shareholder base by inviting non-investing or underweight institutions to meetings.
Institutional investors and sell-side analysts were asked: *How does your organisation decide on which general company meetings to attend and when to request one-to-one meetings?* The value of the various different types of meetings was of interest in the context of this question. Also institutional respondents were expected to recount some experience of being targeted by companies.

**Topics covered in meetings**

The same question *Has the coverage of topic in meetings changed in recent years and, if so, can you explain the causes?* was asked of all three groups. It was hoped to discover what the key topics were and to what extent they differed according to the type of meeting. It was hoped that company respondents would discuss how changes specific to their organisation had influenced discussions in meetings. It was also expected that the question would bring out the effect on discussions of topical issues and stock market trends such as shareholder value, corporate governance *etc*.

The changes to the legal and regulatory system, in particular the new insider dealing legislation and the London Stock Exchange *Guidance on the dissemination of price sensitive information* were expected to have had some effect on meetings. It was hoped that respondents would express their views on these matters.

**Benefits of attending meetings**

Questions mirroring each other were asked of companies and institutional investors and sell-side analysts.

*Company respondents were asked: What do you think analysts and institutional investors gain from attending meetings?* It was expected that the answers would be broadly comparable with the answers given by an audience. It was intended to establish the companies’ view on the extent to which the audience at meetings attempted to gain additional information and whether they could gain a competitive edge by attending
meetings. It was anticipated that companies would expand on the benefits of personal contact and the fact that the audience could make judgments about the quality of management.

Sell-side analysts and institutional investors were asked: What do you gain from attending meetings? It was expected that the views of the audience would provide further insight into the nature of the advantages to be gained from meetings.

Advantages and disadvantages of holding meetings

The same question: What, in your opinion, are the advantages and disadvantages for the company in relation to offering meetings to analysts and institutional investors? was asked of all groups.

It was intended to allow the companies to expand upon the advantages and disadvantages from their point of view. It was hoped that they would also be able to identify and explain any changes that had occurred in recent years.

It was intended that institutional investors and sell-side analysts would consider the issues from the company perspective. This would enable the company view to be compared with the analyst view.

Details of the survey

This section describes how interviewees were selected and how the interviews were conducted.

Companies

FTSE-100 companies were chosen as the target population for this survey because the 1991 survey had indicated that these companies tended to be at the forefront in terms of the extent and sophistication of their investor relations procedures. Companies which had responded to the earlier questionnaire and which were in the FTSE-100 at the time of planning this survey were selected by dividing the population into ten groups according to market capitalisation. This stratification resulted in a
Aim of the Survey

A reasonable spread of companies from the very large to the smaller members of the FTSE-100. A random selection of two companies from each group was made and if neither agreed to be interviewed a third selection was made.

Each company was sent a letter requesting an interview. If possible this was sent to the person who had responded to the original questionnaire but if they had left it was sent to the new occupant of their position. Along with the letter, some additional material was provided for the information of potential interviewees. This comprised a copy of the ICAS research report *Investor Relations: Meeting the Analysts* (Marston, 1996a), a copy of a press cutting from *The Times* describing the research report, a figure summarising the legal and regulatory framework covering meetings (Appendix 2), a copy of the agenda and an advance questionnaire asking for some preliminary information about the number of meetings held by the company.

Interviews were conducted over the period June 1996 to May 1997. The ten respondents included three manufacturing companies, four financial services companies and three in other service industries. On examining the overall composition of the FTSE-100 it appeared that the sample provided a representative spread among the three main industry groups (Appendix 3). One interview was conducted with a finance director, one with a group financial controller and the remainder with directors or managers in charge of corporate affairs or investor relations. Eight interviews were recorded with the permission of the respondent. In two cases detailed notes were taken instead.

Institutional investors

At the time of interviews with companies, interviewees were asked to provide details of representatives of institutional investors who had attended meetings. Most companies either provided a complete list of attendees or suggested four or five names. Potential respondents were contacted by letter with a similar information pack to that sent to the company respondents. Nineteen requests were sent out and interviews were arranged with six institutional investors. Four respondents described
themselves as analysts and two as head or director. Four were from the top twelve UK fund management firms with two from medium sized firms. In five cases the interview was recorded and in one case detailed notes were taken. These interviews were conducted in the period October 1996 to April 1997.

**Sell-side analysts**

Most company respondents were willing to suggest names of sell-side analysts as well as institutional investors. Accordingly, request letters and information packs were sent to 35 analysts and two interviews were arranged. In view of the poor initial response a number of the non-respondents were contacted over the telephone and four more interviews were obtained. Two respondents covered manufacturing companies although one of these covered two service sectors as well. Two covered financial services and two covered other services. All interviews were recorded. The interviews were conducted in the period February 1997 to May 1997.

**Analysis of results**

Most interviews lasted between 45 minutes and one hour. All taped interviews were typed. The resulting 19 transcripts and three sets of detailed notes were carefully read, re-read and subdivided by topic to prepare the results chapters of this study. Throughout the report comments from interviewees are included. It should be noted, however, that these comments are not *verbatim* but capture the essence of what was said.

**Structure of the report**

The remaining chapters of this report present the results of the survey. Chapter two presents the results of the advance questionnaire. It also considers the organisational aspects of meetings which were discussed with the company respondents prior to embarking upon the main
interview agenda. Chapters three to seven then present the responses to the five questions for each of the three groups of interviewees. Chapter eight discusses the overall conclusions of the study.

Endnote

1 High Court of Justiciary 1994 Scottish Criminal Case Reports (SCCR) 277. 16 February 1994.
CHAPTER TWO

CURRENT PRACTICE IN ORGANISING INVESTOR RELATIONS MEETINGS

This chapter starts with the results of the advance questionnaire. It then describes the team of directors and other executives chosen to attend and participate in meetings. The extent to which respondent companies recorded their meetings is then summarised.

Number of meetings held

Company respondents were asked to complete an advance questionnaire providing some basic details about the number of meetings held.

The results in table 2.1 show that the level of investor relations activity for the selected companies has remained stable in respect of the number of general meetings (average seven per year). The number of special meetings has increased greatly from an average of 32 in 1991 to 52 in 1996. The size of the audience has also increased. This indicates the increasing importance of investor relations for the company respondents but in view of the small sample these findings cannot be generalised across the population of FTSE-100 companies.
<table>
<thead>
<tr>
<th>Details of meetings</th>
<th>1996/97 Minimum</th>
<th>1996/97 Maximum</th>
<th>1996/97 Average (Mean)</th>
<th>1991* Average</th>
<th>% increase in period</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many meetings for analysts and institutional investors did your company hold in the past twelve months?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General meetings</td>
<td>2</td>
<td>18</td>
<td>7</td>
<td>7</td>
<td>0%</td>
</tr>
<tr>
<td>One-to-one meetings</td>
<td>20</td>
<td>90</td>
<td>32</td>
<td>32</td>
<td>63%</td>
</tr>
<tr>
<td>Approximately how many analysts and institutional investors are there on your company's circulation list of people who may be invited to these meetings?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sell-side analysts</td>
<td>20</td>
<td>140</td>
<td>58</td>
<td>35</td>
<td>66%</td>
</tr>
<tr>
<td>Buy-side analysts and institutional investors</td>
<td>12</td>
<td>450</td>
<td>125</td>
<td>79</td>
<td>58%</td>
</tr>
<tr>
<td>Can you provide an estimate of the number of individual analysts and institutional investors who have attended at least one of your meetings (one-to-one or general) in the past twelve months?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sell-side analysts</td>
<td>20</td>
<td>90</td>
<td>42</td>
<td>35</td>
<td>20%</td>
</tr>
<tr>
<td>Buy-side analysts and institutional investors</td>
<td>35</td>
<td>170</td>
<td>88</td>
<td>57</td>
<td>54%</td>
</tr>
</tbody>
</table>
Table 2.1 Details of numbers of meetings and size of the audience for meetings (continued)

<table>
<thead>
<tr>
<th>Details of meetings</th>
<th>1996/97 Minimum</th>
<th>1996/97 Maximum</th>
<th>1996/97 Average (Mean)</th>
<th>1991* Average</th>
<th>% increase in period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can you provide an estimate of the number of stockbroking firms which sent representatives to your meetings (one-to-one or general) in the past twelve months?</td>
<td>20</td>
<td>45</td>
<td>29</td>
<td>25</td>
<td>10%</td>
</tr>
<tr>
<td>Can you provide an estimate of the number of institutional investors who sent representatives to your meetings (one-to-one or general) in the past twelve months?</td>
<td>30</td>
<td>130</td>
<td>64</td>
<td>43</td>
<td>49%</td>
</tr>
<tr>
<td>Over the past twelve months, approximately how many requests for one-to-one meetings have been made by analysts and institutional investors?</td>
<td>10</td>
<td>115</td>
<td>52</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Approximately how many of these requests were granted?</td>
<td>7</td>
<td>115</td>
<td>50</td>
<td>N/A</td>
<td>-</td>
</tr>
</tbody>
</table>

*Note: per 1991 survey (Marston, 1996)
N/A information not available for 1991.
Number of meetings attended by institutional investors

Although only four of the six respondents completed the advance questionnaire it is still interesting to examine the information shown in table 2.2. All respondents attended both general and one-to-one meetings in the twelve months prior to the interview but there was a wide variation in their responses. The average number of general meetings was 52 with a range from 2 to 100 and the average number of one-to-one meetings was 55 with a range of 21 to 100. The wide range may be due to the four respondents’ different positions in their organisation. Three respondents described themselves as analysts whereas one was an investment manager. It was noted by some company respondents that junior analysts from institutions may be sent along to all general meetings to pick up the information pack while more senior staff, such as investment managers, may just attend one-to-one meetings. There may also be a geographical reason for the different levels of attendance. Five of the interviewees were based in London, where general results meetings are held. One was based in Edinburgh where it is more convenient to wait for the companies to come to Scotland and attend one-to-one meetings.
Table 2.2 Details of meetings attended by institutional investors (1996/97)

<table>
<thead>
<tr>
<th>Question</th>
<th>Average (Mean)</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can you provide an estimate of the number of company meetings to which you have been invited in the past twelve months?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General meetings</td>
<td>57</td>
<td>12</td>
<td>120</td>
</tr>
<tr>
<td>One-to-one meetings</td>
<td>46</td>
<td>22</td>
<td>60</td>
</tr>
<tr>
<td>How many company meetings for institutional investors did you attend in the past twelve months?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General meetings</td>
<td>52</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>One-to-one meetings</td>
<td>55</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>Approximately how many companies have you on your circulation list of people who may be invited to meetings?</td>
<td>45</td>
<td>20</td>
<td>70</td>
</tr>
<tr>
<td>Over the past twelve months, approximately how many requests for one-to-one meetings have you made to companies?</td>
<td>38</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Approximately how many of these requests were granted?</td>
<td>38</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Only four of the six respondents completed the advance questionnaire

Number of meetings attended by sell-side analysts

Table 2.3 shows that sell-side analysts received invitations to 45 general meetings on average per year and attended 31. This figure is a little lower than that given by the institutional investors. Some sell-side analysts stated that they did not receive any invitations from companies for one-to-one meetings and that in effect they had to invite themselves. This lowered the average number of invitations to one-to-one meetings to
19 compared with 46 for institutional investors. They also attended fewer one-to-one meetings on average (23) than the institutional investors (55). These figures are based on a small sample and cannot be generalised to the general population.

<table>
<thead>
<tr>
<th>Table 2.3 Details of meetings attended by sell-side analysts (1996/97)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Can you provide an estimate of the number of company meetings to which you have been invited in the past twelve months?</strong></td>
</tr>
<tr>
<td>General meetings **</td>
</tr>
<tr>
<td>One-to-one meetings **</td>
</tr>
<tr>
<td><strong>How many company meetings for sell-side analysts did you attend in the past twelve months?</strong></td>
</tr>
<tr>
<td>General meetings</td>
</tr>
<tr>
<td>One-to-one meetings</td>
</tr>
<tr>
<td><strong>Approximately how many companies have you on your circulation list of people who may be invited to meetings?</strong></td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td><strong>Over the past twelve months, approximately how many requests for one-to-one meetings have you made to companies?</strong></td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td><strong>Approximately how many of these requests were granted?</strong></td>
</tr>
<tr>
<td>17</td>
</tr>
</tbody>
</table>

** 5 out of 6 responded to this question,
* 4 out of 6 responded to this question
1 The analyst who had made no requests for one-to-one meetings omitted the following question
2 This analyst had made seven requests for one-to-one meetings
Recording meetings

Company respondents were also asked whether a record of proceedings of both general and one-to-one meetings was kept. This aspect was considered to be of interest in view of paragraph 24 of the London Stock Exchange (1995) Guidance on the dissemination of price sensitive information.

Conduct of meetings with analysts. Some companies are concerned that they may be misinterpreted or mistakenly accused of providing price sensitive information following meetings with analysts. These companies should, if they think it necessary, look at internal procedures to reduce these risks. These procedures could, for example, include ensuring that more than one company representative is present during these meetings and that accurate records of all discussions are kept.

Companies varied quite widely in their answers to this query but in eight cases out of ten there was some sort of record keeping although this was not necessarily the same for general and one-to-one meetings. Tape recordings or more detailed transcripts tended to be used for general meetings with notes being made at one-to-one meetings:

We keep lists of attendees and brief minutes of meetings. These usually list the questions asked and an abbreviated answer. At one time we had a process whereby this was completed within one week and submitted to the company secretary to check for price sensitive information. That company secretary left and the system has relaxed. People do have to do them but sometimes they wait to be finalised for some time ... In general meetings we wait until the questions and answers at the end and then tape those, just in case. (Company F)

We record our set piece meetings eg the results, the interim results and the annual general meeting. For other meetings we take note of attendees and put them on our database. (Company A)

A transcript is kept of general meetings. For one-to-one meetings, notes are taken by the investor relations team in case of debate. (Company H)
One respondent commented that it was not feasible to take notes at dinner meetings or site visits. Two of the respondents stated that they did not keep records of either type of meeting.

The variety of approaches by the ten respondents was compared to their answers to the 1991 survey. The eight respondents who recorded general meetings had also done so in 1991. Six respondents recorded one-to-one meetings but they were not the same six who had recorded one-to-one meetings in 1991. Only four respondents were consistent over time.

In respect of the related matter of having more than one person present in one-to-one meetings most companies normally ensured that this was the case. A minority believed that it was taking caution too far:

... people have suggested that you have two people in these meetings which I think is ridiculous. Sometimes before we go into close periods, I see 20 analysts over two to three weeks and we all talk about the same things. If my boss ... is seeing an investor I used to sit in with him, but now he tells me not to bother ... Basically, if you are new in the job I would recommend that for the first few months you always have two people present ... Thereafter you must have confidence in yourself. You get to know the people you are talking to, especially analysts, they can be quite wily. (Company B)

Comments

The question that arises here is whether the benefits of keeping a record of meetings outweigh the costs given the individual company's experience of past disputes over the content of meetings. One respondent commented that he had only had one such dispute with an institution in ten years. However, conclusions cannot be drawn about the overall frequency of disputes. Respondents were not asked to discuss specifically whether they had had disputes over the content of meetings or whether they had made much use of their records of meetings. It is possible that the other nine respondents had different experiences.
This point has some bearing on the costs and benefits of regulation in general. It also illustrates the difficulty of specifying precisely regulations to achieve policy objectives. If a strict regulation was introduced that a word for word record be kept of all meetings this would impose a substantial cost on all companies. Benefits would arise when these records could be used to settle a dispute or counter an accusation of selective briefing. By regulating this area there might be a tendency for greater use to be made of telephone calls. Would it then be necessary to tape all calls? If all telephone calls were taped people might meet informally outside company premises. Thus the regulation might have the opposite effect to that intended. Rather than making meetings more open and transparent it could drive them underground.

It appears that some respondent companies had decided to formalise the recording of meetings to a greater extent than others. Perhaps this is not surprising in view of the rather tentative wording of the London Stock Exchange Guidance. Different people have varying attitudes to risk and some may prefer to follow the guidance strictly to protect themselves and their company.
CHAPTER THREE

IMPORTANCE OF MEETINGS IN THE INVESTOR RELATIONS PROCESS

This chapter presents the results of the question which asked about meetings in the investor relations process. It starts with the views of the company respondents and continues with views of the institutional respondents and then the sell-side analysts. The overall findings from the three groups are then discussed.

Views of company respondents

Company respondents were asked how meetings with analysts and institutional investors fitted into the overall programme of investor relations. All company respondents agreed that meetings were an important part of the investor relations programme.

General meetings

Within the broad category of general meetings respondents identified the following:

- 'set piece' meetings such as final and interim results announcement meetings, the annual general meeting;
- group lunches or dinners particularly in Scotland;
- meetings to discuss a particular part of the business or a special event such as an acquisition;
- regional conferences organised by US brokers for investing institutions;
- site visits; and
recreational visits to company sponsored events which were seen as part of building a relationship with analysts and institutional investors.

Three companies mentioned that they preferred to keep sell-side analysts and institutions apart by holding separate results meetings. One other respondent said that his company had held separate meetings to discuss mergers. The other six respondents did not raise this point in their interview. The tendency of sell-side analysts to hold back their questions, until after the formal question and answer session, was noted by several respondents. They also noted that where meetings are mixed (sell-side and institutions) the representatives from the institutions tend not to say anything.

One-to-one meetings

One-to-one meetings are held both for institutions and for sell-side analysts. Companies usually visited the institutions whereas the analysts came to the company. Analysts tended to request meetings just before companies go into their close periods prior to the results announcement. The operation of close periods had also been investigated in the 1991 survey when it was found that 45% of companies prohibited all communication with analysts during close periods and 53% operated a restriction such that general matters would be discussed but not the upcoming results (Marston, 1993, pp 254-256; Craven and Marston, 1997). None of the respondents in the current survey mentioned having meetings in close periods.

Sell-side analysts like to see you two days before you go into the close period ... we feel less comfortable about that. For example although there is no bad news or areas of concern you are always conscious that the person who comes in first has a lead. (Company F)
According to respondents, some analysts seemed more keen to see companies than others and they sometimes asked the companies to come and give a presentation to their sales force or a group of clients. Several respondents considered that analysts were important because of the research reports they write.

"...the value of these meetings is doubtful but if they want them they have them. I want the analysts to go away thinking I’ve given them a lot when in fact I’ve given them nothing at all. They are important because the good ones do go away and write circulars. They analyse the business and they get quite into it. I think it is necessary to see analysts and stockbrokers to communicate what is happening within the company. You cannot communicate it in a report and accounts. (Company B)"

One-to-one meetings for institutions were usually held in batches after the results announcements although they could be spread more evenly over the year, subject to avoiding close periods. Most companies viewed these meetings as very desirable:

"...we are keen to have close direct links with institutional investors. We respond to any requests that we might get from institutional investors for meetings. We will also see fund managers through a broker. ... A number of institutions no longer want brokers present at those meetings and I think some of them see brokers as intrusive. A broker wants to benefit financially from the meeting because otherwise there is no point in having it as far as they are concerned. Whereas institutions see the meeting as a care and maintenance session, to check how things are going. We like to have as many one-to-one meetings with institutions as possible. (Company A)"

One respondent commented that they had been neglecting the investment community and were planning to set up more one-to-one meetings in the future.

Only one respondent mentioned the importance of talking to private shareholders by making regional presentations in conjunction with private client stockbrokers. By including this type of presentation in an investor relations programme companies can be seen to be fair to individual shareholders.
Relationship between meetings and telephone calls

The relationship between meetings and telephone calls was described by several respondents. None of the respondents mentioned specifically e-mail as a method of receiving or responding to questions. Announcements to the Stock Exchange frequently led to calls from analysts. Not all announcements have a general meeting scheduled to follow them and the respondents considered that they should be available to answer queries over the telephone. This finding agreed with the 1991 survey where over 94% of those respondents engaged in telephone conversations with both sell-side and buy-side analysts, and fund managers (Marston, 1993, p 238). Analysts are often concerned about their forecasts and seek advice from the companies. Companies are usually willing to give guidance without giving out what they see as price sensitive information.

If the forecasts are very out of line we will tell the analysts to go back and help them identify errors and give steer. (Company J)

I sometimes find that analysts know where they want to position themselves in the range. They want you to guide them in terms of where the middle of the range is. They will choose to be either higher or lower. (Company F)

We get many calls after an announcement from people wanting to move their forecasts. Since the Criminal Justice Act it is quite a problem to do that. (Company E)

Respondents commented that analysts also ring up after a meeting to seek clarification on points that arose at the meeting. One respondent remarked that individual shareholders from the US tended to ring up and complain if the share price started to fall compared to its competitors. Another respondent stated he would speak to five or six key analysts after the results announcement and before the results meeting:
... there will be questions at the results meeting and after the results meeting there will be further telephone calls and further private discussion. Everyone seems to rush to the front of the hall to ambush the company's representatives trying to get the extra angle, making sure their presence is noted. (Company C)

Site visits

The importance of visiting the US and, to a lesser extent, Europe was stressed. Some companies fitted in conference calls on results days in order to meet the needs of overseas analysts and investors.

The importance of site visits varied according to the line of business of the respondent. Those in the financial services sector noted that they were not very interesting unless they involved a new acquisition or overseas operations. Visits may arise when a broker wants to take a group of investors. Also presentations on a particular operating area of a business may be backed up by a site visit. When factory visits are involved the firms need to choose an interesting location which will keep the attention of the analysts. One problem is that local management may not be familiar with investor relations practices and inadvertently release too much information:

The amount that analysts can speak to local managers is limited. The managers are briefed as to how much they can say. (Company J)

Comparison with 1991 survey

The responses to this question indicated the importance of the various types of investor relations meeting to the company respondents. The importance of telephone calls also came out in the discussions. These results can be compared to the 1991 survey. That survey had asked respondents to rank five different methods of communicating with fund managers and analysts in order of importance. The results had shown that one-to-one meetings were seen as being of high or moderate importance by 96% of respondents followed by answering telephone
queries (89%) and general meetings (91%). Providing feedback on analysts' reports was viewed as of moderate or high importance by 78% of respondents. Mailing information to analysts and fund managers was considered of moderate or high importance by 60% of respondents (Marston, 1996a, p. 23). Thus, the results of this survey are in broad agreement with the earlier survey.

Views of institutional investors

Institutional investors were asked how meetings with companies fitted into their overall programme of company research. All respondents from institutional investors were of the opinion that meetings were important.

General meetings

The respondents had all attended general meetings in the past twelve months (see table 2.2). Although results meetings were considered useful by some respondents, others believed that they were not very valuable. In addition to general meetings they sometimes attended meetings for a small selected group of institutions arranged by the company broker.

One-to-one meetings

One-to-one meetings were seen as very important and some institutional investors had discretion as to whether or not to attend all general meetings for the companies they followed. In the large institutions the analysts would attend the one-to-one meetings with a team of fund managers.

Respondents said that they generally saw the chief executive and finance director at one-to-one meetings and they believed that they were granted access to the level of management that they wanted to see. They considered that because they were working for large organisations they were in a lucky position and their perception was that smaller institutions might not be able to arrange one-to-one meetings so easily. Apart from
seeing senior management once or twice a year they said that they could see the investor relations staff as often as they wanted. One respondent expressed surprise that some companies would not grant her an immediate meeting if her large institution was not an investor. This was justified on the grounds that they had to see their existing investors first.

Site visits

Site visits were viewed as desirable because of the opportunity to understand the business better and to talk to operations management.

Those are really helpful as you tend to meet the management who actually run the businesses, not top management who are probably involved with strategy. Also you tend to find top management have received training on presentation style. I want to know if the top management get run over by a bus, is there someone who can run the business properly, underneath? (Institution F)

You can tell a lot from the shape of the factory. Is everyone employed? Are people hanging around? ... normally companies come to see us. You see the managing director, finance director and possibly investor relations director or manager. They have their own agenda and are not going to tell you anything negative. If they do, they say they are constructively trying to fix the problem. If you go to see a company sometimes and speak to people lower down you say 'is this working?' and they say 'it isn't really working'. You get a different, more comprehensive view of the company. (Institution D)

One respondent complained that some companies hold site visits for sell-side analysts but that institutional investors are not invited. This was confirmed by another respondent who said that she was invited to site visits along with sell-side analysts only because of the size of her institution.
Other contacts with companies

Most respondents said that if they wanted extra information about a company they could either contact the company broker or ask the company directly. In some cases the company then says that it cannot release the requested information. This is an accepted part of the routine and causes no offence. One respondent commented that if the companies gave you everything they would all be out of a job.

Not all respondents believed that their questions were answered adequately but they recognised the problem for companies. Most respondents considered that company presentations at the start of one-to-one meetings were not very revealing and it was only by asking questions that valuable information could be obtained.

Companies do not always answer questions adequately. I think much of the problem is that there are all sorts of conflict. Often the things you most want to know they cannot tell you. For instance regarding X plc, all we really want to know is will the deal with Y go through? But they cannot give any information, not even a hint, about that. That is the trouble. It is a question of what you need to find out. We do not really get companies in to find out what their margins will be next year. We look at big strategic questions, so there are always issues that are difficult to answer. It is only occasionally that we feel they are not giving it their best shot. (Institution E)

There were also some comments that 'investor relations tutoring' of senior management was detracting from the value of meetings. This was making the answers more public relations or marketing oriented and reducing the actual substance and sincerity of the meeting.

One respondent, from a medium sized rather than large institution, noted that as they only did a limited amount of analysis in-house the links with the broking community were very important. They thought that with large companies they could add very little by in-depth research themselves but they devoted more attention to meeting the smaller companies in their investment portfolio.
In terms of our research framework a large part of the fund managers' remit is to develop appropriate contact with analysts in the broking community. This is to develop understanding of sectors and the companies in those sectors. They use that to feed into a limited amount of in-house research ... Any meetings with companies fit into that framework. The meetings the companies have with analysts in the broking community are important to us because, that in a secondary sense feeds through to our specialists in those areas. And we use the meetings with companies, visits to companies, to supplement that. To try to develop a more in depth perspective of our own on what the future direction of the company is. (Institution A)

If this finding is typical it may be that some institutions rely more on the work of sell-side analysts in respect of big companies and devote more effort to meetings with smaller companies. It may be worthwhile to do this if smaller companies are less well researched. Also smaller companies may be easier to understand and thus the investor can gain more from a visit.

The use of sell-side analysts as a resource was an idea that was mentioned by some of the other interviewees. One said that she tried not to look at all the research reports because she would just end up with a 'consensus of consensuses'. She tried to form her own opinion and then ring up an analyst for their views. One respondent pointed out that there was often a quantitative and qualitative difference between what the sell-side analysts wrote in their reports for general consumption and their thoughts about the company based on extensive knowledge and experience. He considered that being able to talk to analysts in an informal way was a very valuable resource. In fact he viewed analysts as almost part of his organisation because although not on the payroll they were being paid through the commission generated by the institution.

Overall meetings appeared to be a key part of the research process for the institutional respondents with both general and one-to-one meetings having their uses.
Views of sell-side analysts

Sell-side analysts were asked how meetings with companies fitted into their overall programme of company research. All sell-side analysts agreed that meetings with companies were important to them. They believed that they needed to see companies in order to differentiate their research product. The different types of meeting were seen to fulfil different roles. One analyst commented that a detailed research note might be based on a company presentation whereas a post results note or quick comment might not be based on a meeting at all.

Both manufacturing sector analysts in this survey thought that their job was made difficult because of the lack of similarities between the companies in their sector. Also important was the fact that their companies were dealing with international competition and economic factors in different countries. For this reason they considered that meetings were essential and both suggested that analysts in other sectors may not face the same problems.

General meetings

Companies hand out copies of press releases, company fact packs and the presentation slides at their general meetings and the analysts find these useful. Fact packs may contain additional information to that in the annual report.

_Normally at a meeting you will get more information, sometimes interesting stuff. There will be a fact pack with all the general information. Our reasoning is that normally the fact pack will have the same information as the quoted information, but perhaps there will be some additional stuff ... it partly depends on the company. Big companies are normally pretty good at issuing all the information e.g. the information in the pack would probably be in the accounts. Some smaller companies put more information in the packs than you would get in the accounts._

(Broker D)
Also analysts get a chance to see the chairman, chief executive, finance director and one or two other people from different company functions at general meetings and this is clearly considered to be advantageous.

The institutional respondents had pointed out that sell-side analysts tended to ask most of the questions in the open forum at general meetings. Some sell-side analysts indicated that they preferred to save their questions and ask them in private. One opinion was that analysts from smaller firms of stockbrokers tended to ask a lot of the questions in order to try to make a name for themselves.

I never ask questions at big company meetings. I do this to distinguish the product. One reason is, if I have a clever or different point why give it to other people? The second is, you can rarely ask supplementaries or continuous questions. It is not a conversation, it is like tennis, a rally. The third is, in the companies' eyes it probably marks me off as a bit more courteous and a bit more serious. But that is only a marketing thing to do with me. In some of the question sessions I think some analysts, especially the younger or the less experienced, do get pushy to the point of lack of courtesy. It is unusual, I do not know many analysts that do not ask questions, but at one-to-ones of course it is a whole string of questions. (Broker C)

There was sometimes a problem for analysts on results days in merely assimilating all the new information.

I follow ten or eleven companies so I have lots of time to feel up to speed. The only time I do not feel up to speed with the companies is on the day they have figures, the figures come out at 7.30. I am able to forecast what I think the figures are going to be, the balance sheet, everything. I have to speak about the figures at the morning meeting to the sales force at 7.45, whether I think it is a buy or sell or whatever on the figures generally. I have to leave the building at 8.45 to go to the analysts' meeting which goes on for an hour or an hour and a half. I come straight out of that, phone the office on the mobile and tell them what I think the forecast for the next year is going to be. And again whether I think the shares are a buy or sell and how the price will react to the meeting. You may say that sounds pretty dreadful because over that period there is no chance you are going to read an 80 page statement.
Most of the time they are very boring but every now and again they are very important and you cannot tell before you do it ... It is a celebration of the glaringly obvious most of the time and then suddenly something pops up (Broker E)

Pre-close season briefings

The interviewees reported that pre-close season briefings were handled in different ways. Some companies held one-to-one meetings whereas others had general meetings (either formal presentations or an analysts' lunch). Another approach was to release a trading statement and take telephone calls from analysts. These contacts were crucial for the analysts as they would normally be required to prepare a research note containing a profits forecast around this time.

... a month before the close of the half year or whatever, I go along and have an informal chat with two or three people, it is not a big set piece. I am always aware that these people have three quarters of an hour to an hour at most so I avoid what I call nit picking conversation. I go along with my estimates worked out, you can dismiss that in ten minutes and then talk about the industry, the big events, issues, what competitors are doing. I have always found people very helpful. (Broker C)

Obviously they will only see you before they go into close period. I see the finance director or the investor relations people. They will have figures for, say, four months and have a good idea what the results are going to be. They are not going to tell me what the numbers are. But in response to reasonably informed questions they will give me an idea of what is going on. No sensible company wants a market to be miles out in terms of what people are forecasting. With most companies, particularly FTSE-100, when their figures come out you very rarely get nasty down side surprises because the market is correlated into a range.
I find if you like a company and think things are going well, then if you forecast over where you think the company is guiding you, generally you will be right. Equally if I do not like a company or I think things are going wrong, or they do not give me a lot of reassurance in the pre-close season meeting, then I tend to forecast down. (Broker F)

The above quotation indicates the importance of pre-close season briefings as part of companies' management of market expectations. Another respondent was of the opinion that companies would help the analyst and correct profits forecasts in detail ten years ago but that now the level of assistance was much reduced.

As noted earlier in this chapter, the 1991 survey also provided some evidence about the operation of close seasons and company policy on offering guidance on analysts' research reports and profits forecasts. The London Stock Exchange Guidance (1996) makes some comments on these problems. In particular it states that:

*The term 'close period' applies to a period before any regular reporting event when the directors of a company cannot deal in its shares. Many companies make it an in-house rule that they will not communicate with the market during these periods. This is not a regulatory requirement ...*

Companies are encouraged to assist analysts where possible in forming a view of their activities and trading prospects. Companies should, however, have a firm policy about the extent to which analysts' questions should be answered ...

*In most circumstances a company is not obliged to make an announcement correcting public forecasts by analysts ...*

Companies can overstep the bounds of what is considered generally acceptable in their pre-close season briefings. For example, *The Independent* (1998) reported in August 1998 that a company was 'embroiled in a row over selected briefings. X plc appears to have told a few City experts that their forecasts ... were way off line and needed to come down sharply.' In its defence the company argued that the analysts had approached it with
some wayward figures and the company had replied with some guidance. The Independent concluded that 'X plc is but the last in a long line of companies which have exploited the grey area between “guidance” and the leaking of sensitive information to ease bad news into the market. The sooner the Stock Exchange tightens the regulatory screws, the better.'

Site visits

The importance of site visits varied according to the sector covered by the analyst. In the manufacturing sector, factory visits helped analysts to visualise the process and put it in context. One respondent acknowledged that he could not really judge how well a factory was being run but he still thought it useful to see the subsidiary management.

I think site visits are useful. ... Largely you want to meet subsidiary management and try to judge whether they live up to the quality of the top management. Your normal contacts are the chairman, chief executive and finance director and maybe the investor relations manager. You want to meet people down the line to see if they are of the same quality and what they have to say. The whole idea is judging management. (Broker A)

Another respondent pointed out that although site visits were useful it was against the 'generality of protocol' to address detailed financial questions to managers on site visits. One analyst mentioned he would only attend a site visit if there was a chance of getting a story which would generate some commission.

Other contacts with companies

After a general meeting analysts would frequently telephone the company to clear up points. This was not asking for additional information but rather clarification of points they did not understand or had missed. They would also telephone the company before it went into its close periods. If a company issued a press release they would ring up to see if they could get a better understanding. Telephone calls were seen as part
of building up a relationship with the company and demonstrating understanding of and interest in it. One analyst described the situation when sometimes, at general meetings, executives may be asked an unexpected question and say something misleading. Investor relations staff sort out the mess after the meeting by telephoning and telling analysts what the executive meant to say.

In general, respondents believed that companies dealt with their questions adequately although there was a boundary and companies would mention the law on disclosure of price sensitive information in order to avoid answering leading questions. They might also be unwilling to reveal information of interest to competitors.

Occasionally companies will be distinctly unhelpful ... We are paid as stockbrokers to find out about businesses that companies maybe do not want to tell you an enormous amount about ... I think most companies are aware that if they do not disseminate information to the market then analysts will have a pretty good guess at what the right answer is. Therefore I find most companies are quite happy to give you a reasonable steer as to what is actually going on ... if you look at the way companies trade, usually the market gets at, or quite close to, what is really going on, in the way of discounts in share prices. I guess most companies would be aware of that. The things companies do not like to reveal are not so much price sensitive but something that their competitors might find interesting ... (Broker F)

Although meetings were seen as an important part of the research process the detailed background knowledge gained by an analyst over the years was also beneficial in producing research.

... a lengthy piece of work, may require a one-to-one meeting. Normally for a large piece of work we have probably been involved in site visits and a number of meetings and you are pulling it all together. You do not necessarily have a one-to-one meeting to discuss a piece of work which is pulled together through your more detailed background knowledge ... very often when you decide to do a piece of work it may be driven by where the share price is and have absolutely nothing to do with a meeting,
presentation or anything. You may just decide 'the share is too cheap, I am going to write something'. After all we only get money by buying and selling stock and hopefully getting it right. (Broker B)

In addition some analysts, in their role as company broker, are present when their client companies have meetings with institutions. This allows the analyst to pick up information and may happen when an analyst accompanies a client on a visit to a financial centre such as Edinburgh. One interviewee, however, commented that there was an increasing trend for institutions to want to see companies on their own without the company broker being present.

Overall sell-side analysts agreed that meetings were an important part of their research process although these meetings were supplemented with telephone calls. The sell-side analysts were conscious of the need to generate commissions for their firms and viewed meetings as a way of distinguishing their research product and investigating their ideas.

**Overall findings**

All three groups agreed that meetings were important. It appeared from the discussions that the different types of meetings had evolved in order to meet the needs of the companies and the audience. A general meeting is a time efficient way of disseminating a standardised message to a group. A one-to-one meeting is flexible and tailored to meeting specific information needs. Site visits meet a need and satisfy the desire of institutions and sell-side analysts to look inside the business and meet operating managers.

Meetings, however, cannot be viewed in isolation because the interviews brought out the importance of telephone calls both in the context of following up points raised at meetings and as a substitute for meetings.

The research activities of the sell-side and buy-side analysts can be seen as complementary in improving the market's understanding of the company. The sell-side analysts were more interested in obtaining
information which would help them to generate commissions for their firm whereas the institutional investors were more focused on understanding the company.

Profits forecasts and research reports of sell-side analysts were an important product of the financial market from the perspective of all three groups. Companies want to see intelligent comment about their company expressed in quality research. They also want to avoid surprises and therefore they assist with forecasts. The institutional investors can make use of sell-side analysts' research to supplement or replace in-house research.

Image, reputation and impressions are important attributes which can be enhanced through the meetings process. Company management presentations should be polished but not too slick to strike the right balance between competence and sincerity. Site visits enable the audience to gain impressions of the working of the business. Sell-side analysts use meetings to advance their profile with institutional clients and to gain credibility with company management.

Comments

A corporate governance issue arises from these findings in that privileged access is granted to an elite group of institutional investors and sell-side analysts. This activity is held to be beneficial for the working of the efficient market but individual investors are largely excluded from investor relations meetings. There is, therefore, a case for increasing the transparency of the process and for ensuring that outsiders are at least aware of what is going on and receive some of the information that is transmitted via investor relations meetings.

The use of the Internet (and e-mail) as an investor relations tool to be used in conjunction with live meetings and other investor relations activities is likely to increase in importance. Indeed there is already widespread use of the Internet by leading companies and this has lead to some academic research. There have been a number of surveys of financial reporting (Lynner, 1997; Wildstrom, 1997; Gwathmey and Flynn, 1997) and investor relations (Deller et al, 1998) on the Internet. Also, articles
have appeared that provide advice and examples of best practice for investor relations departments (Reilly, 1997; Liebman, 1998). One theme emerging from the literature is that the Internet and e-mail are particularly useful tools for maintaining an investor relations link with individual investors. Liebman (1998) reports on a website that allows visitors to register for regular e-mail broadcast services of all press releases and a bi-monthly e-mail newsletter. Thus, when the results announcement goes up at the London Stock Exchange it is e-mailed to subscribers to the service, most of whom are private investors.

It may be that the market is currently providing a solution to the apparent problem of the inequality of information between the elite inner circle and the outsiders. The Internet provides a mechanism whereby individual investors can be kept informed of all formal elements of information. This has been recognised in the financial pages of the media.

_The advent of the Internet has been hailed as a revolution in shareholder democracy. For the first time, retail investors have access to detailed financial data and news announcements at the same time as company employees, analysts and brokers. That allows individuals to buy and sell shares with the same real-time information as professionals (McMurry, 1998)_

The importance of these pre-close season briefings can also be related to the topic of stock market efficiency. A market is efficient at the semi-strong level if all public information is impounded in the share price. Strong level efficiency arises when all information (i.e. including inside information only known by company management) is impounded in the share price. If a close period prior to a results announcement is about to start, then there may be an incentive for managers to disclose inside information about what the forthcoming results are going to be. This proactive management of expectations will help the company to avoid surprising the market later and possibly suffering from large share price movements. At the same time the market will be made more efficient by revealing inside information earlier rather than later.
The findings reported in this chapter provide a qualitative insight into how market efficiency is achieved and how investor relations meetings contribute to the process of information disclosure, assimilation and understanding of that information and share price setting.
CHAPTER FOUR

REASONS FOR HOLDING AND ATTENDING MEETINGS

This chapter presents the results of the question which focused on the company decision to hold meetings and whom to include on the invitation list. The question to institutional investors and sell-side analysts asked how they chose which meetings to attend. The overall findings from the three groups are then discussed.

Views of company respondents

Companies were asked how they decided on the number of meetings to hold and which analysts and institutional investors to invite. Companies believed that it was necessary to have both general and one-to-one meetings because they served different purposes. At general meetings the companies were able to set the agenda and make a presentation followed by a question and answer session. This provided a basic level of knowledge for all participants, which would then be supplemented by the one-to-one meetings. The one-to-one meetings tended to have a wider agenda and be more forward looking and strategic in focus. Some companies were keen to make a presentation as part of one-to-one meetings but they sometimes found that the institutions wanted to omit the presentation and move straight into specific questioning on the performance of the company and strategy.
General meetings

The decision to hold a general meeting was determined by the financial calendar of company respondents. The half yearly and final results meetings seemed to be obligatory, indeed one respondent commented that there would be a few worried faces if these were not held. For companies issuing quarterly reports or trading updates a meeting was not always held because queries were dealt with by telephone. The number of meetings increased if companies decided to keep institutions and analysts separate. One respondent preferred to have separate meetings because otherwise analysts would try to impress their clients whereas another said that institution only meetings were dull. Most companies held separate meetings for the press.

The existence of US or other overseas investors tended to increase the number of meetings because companies would fly over a team to carry out presentations and one-to-one meetings where they considered it desirable. This agreed with the results of the 1991 survey which found that companies with overseas stock exchange listings held significantly more general and one-to-one meetings than solely domestic listed companies (Marston, 1993, pp 231).

One-to-one meetings

The number of one-to-one meetings seemed to be determined by the number of institutional investors and analysts following a company. Some companies had a list of their investors and aimed to see them all once or twice a year whereas other companies would wait for the institution to ask them. All companies indicated that they were willing to see analysts when they requested one-to-one meetings, subject to diary pressures. Most companies stressed the importance of visiting the Scottish institutions for one-to-one meetings or group presentations.

*Scotland is completely different. They are ruthless in their attention. We usually end up meeting far more people than we expected, plus there are a number of major Scottish institutions who will only see us on a one-to-one basis. That does not matter, they buy a lot of shares*
and they hold them. That is no problem at all, but we tend to see maybe a dozen or 15 smaller institutions at a group meeting, possibly a buffet lunch or something like that. Then we will see larger institutions or those who want to see us and we feel we ought to see them on a one-to-one basis and that has worked very successfully. (Company A)

Maintenance of database

Companies all had lists of contacts at institutions and sell-side analysts based on who had attended meetings in the past. They attempted to keep these up-to-date. They also usually had a view about the relative importance of the different institutions and analysts. They tended to view large institutions and those institutions which held a large investment in their company as more important. Analysts were rated in terms of the amount of trade they could generate, how closely they followed the company and how they appeared in the public rankings of analysts published by firms such as Extel and Reuters. Most companies said that, despite the informal rankings, all institutions and analysts were treated equally in terms of access to meetings and information. On the other hand, while a major shareholder might receive a visit from the chief executive and finance director, a small group of less important investors or potential investors might be invited to a lunch.

Basically, if someone holds 2-4% of your stock they have a lot of buying potential. So yes if they are bigger ... you are going to give them more time. I am not saying they take up more time that anyone else. We will see people as far as possible. (Company F)

Targeting of institutions

Companies may target institutions which have not invested or seem to be underweight in their shares. Some respondents seemed to be more proactive in this regard than others. They carried out an analysis of their shareholders’ register to identify which institutions to target. The institution may then be asked directly if it would like a meeting. Other companies made enquiries of brokers who had a close relationship with
those institutions to try to identify a problem. One company mentioned that corporate governance issues had been given as a reason for non-investment and they had attempted to rectify their corporate governance procedures as a result. Another company mentioned that because they were on the downside of a long business cycle it was difficult to target institutions at that moment. One tactic adopted by companies was to invite underweight or non-investor institutions to a dinner with heads of investment from the company's top ten or so shareholders.

_We try to get research from the brokers to help identify why we are losing out. Is it simply that the institution does not like our sector, already has a full weighting or whatever ... the brokers do know why. (Company D)._ 

Apart from these findings, the issue of shareholder analysis and targeting is covered in some detail in literature aimed at investor relations practitioners (Carpenter, 1996; Investor Relations Society, 1997). These activities indicate highly proactive and intentional attempts to manage the market for the company's shares.

Another point was the tendency of institutions to send their analysts to general meetings whereas the more senior staff with authority to make investment decisions will wait for the one-to-one meeting. If the company wants to meet those people the one-to-one meeting is essential. The smaller investment houses may not have analysts so the companies' only contact may be at the one-to-one meeting as the fund managers may be too busy to attend any general results meetings.

The programme of meetings over the year, therefore, is dictated by the demands of the financial calendar, the investing institutions and the sell-side analysts. The companies aimed to satisfy the perceived demand for meetings of all types.
Views of institutional investors

Institutional investors were asked how their organisation decided on which general meetings to attend and when to request one-to-one meetings. Respondents agreed that there was a difference between general and one-to-one meetings. It was commented, however, that only publicly disseminated information could be presented in either type of meeting.

General meetings

At general meetings the company sets the agenda whereas at the one-to-one meeting the institution sets the agenda. One respondent said that a list of questions would be sent to the company, in advance of the meeting, because there was no advantage in trying to catch them out. In contrast, another respondent was opposed to sending the questions in advance.

The number of general meetings was determined partly by time pressures on the respondents. Results meetings were considered important by most respondents. General meetings covering special events such as acquisitions were viewed as being especially worth attending. Although respondents tried to cover all companies in which their institution had invested there was also a need to see other companies in their sector of responsibility.

... meetings relating to corporate events are more interesting, because obviously something major has happened. The only way you will find out much about it in the short term is to hear what they have to say. There is an interest factor just in the information you can get, in that contact. It is also the only way they can disseminate the information quickly to so many market participants, so I think that makes sense. I think the more routine meetings, eg six monthly results, probably represent 90% of the meetings you get invited to and they are of mixed value to us. (Institution A)
In Edinburgh some companies arrange lunch and dinner meetings for small groups of institutional investors because their time available for holding one-to-one meetings is limited. One respondent thought that dinner meetings were more valuable because they lasted longer, were more relaxed and tended to be held for more senior staff.

Asking questions at general meetings seemed to be a bit of a problem area as institutional investors believed that this should be left to the sell-side analysts although there could be opportunities after the meeting:

... at the end, if there is a question, it tends to be sell-side analysts, trying to make a point about something. My tactic if I want to ask something is to go up at the end and ask the finance director or chief executive when there are just a couple of people around. (Institution F)

One-to-one meetings

One-to-one meetings were seen as being more informative and relaxed. The opportunities to establish a rapport with management and ask questions in a one-to-one meeting were key differences. If a company wanted to make a formal presentation at the start of the one-to-one meeting this tended to make the meeting more formal and reduced the time available for questions. Most of the respondents, therefore, were keen not to have a presentation or to minimise its length. It was agreed, however, that presentations could be useful if the institution had just invested in the company.

Respondents had differing views about the timing of one-to-one meetings. Some preferred to have them after results or around the time of the annual general meeting when recent accounting information would be available. Others preferred to have them in the middle of a reporting period, when recent results were not available. This allowed an investor to discuss general matters rather than focusing on results. Not all companies, however, wanted to co-operate with this desire:

*We do not like to see them just after the results because all the information is widely known and has been interpreted by the market.*

*We would like to see them between the final and interim results to get*
an update ... management try to push it back to become a results type meeting. The reason for that is it is much easier for them inasmuch as they have had their results and they know what the results are. They have presented them to the press, to stockbrokers and then to the institutions. They are just doing the same thing so they are well rehearsed. (Institution D)

One respondent mentioned that conference calls were an important addition to the programme of meetings. Additionally one-to-one calls would be made on results days if the institution had a big holding.

We do an enormous amount of conference calls. We would be expected to speak to the company before the quarter end, to see how the previous quarter had progressed. Obviously they are going into close period as soon as the quarter finishes, so we have to do that prior to this. Then we also speak to the company on the day of the results. If it is a big company and especially if we have big holding in it we try to do a one-to-one call, regardless of whether they have a public call. We are not trying to make the company tell us something they are not going to tell anyone else. The way you can gain an edge over your competition is by asking your own carefully tailored questions. You just may think of asking a question that somebody else does not ask. We tend not to like to do that in a public forum because we do not want other people to get the good ideas. That is why we consider the one-to-one calls quite important. (Institution C)

Most respondents from the large institutions said that they did not usually feel the need to request a one-to-one meeting as companies tended to contact them. They would ask for a meeting if, in their opinion, things were going wrong or to discuss a special event such as an acquisition or restructuring.

One respondent from a large institution said that he would try to arrange a one-to-one meeting to discuss a special event. This was in addition to attending the general meeting as this would allow his firm to express their views. This is an important advantage for the company and
the institution. Presumably the respondent would expect company management to take his views into consideration when managing the special event in question.

... Sometimes if we have invested and something comes out of the woodwork then we would request a meeting. We encourage them to see us before things get out of control, for example, the X boardroom bust-up - we did not hear - if they had requested meetings with us it could have saved all the aggravation. (Institution B)

Targeting of institutions

Most interviewees agreed that companies did attempt to target their institutions if they were considered to be underweight or had not invested. This is in accordance with the findings from the company interviews reported earlier in this chapter.

Yes, particularly when we have gone underweight. I am always impressed by companies that come in for meetings and have our shareholding record and say that we are selling down since whenever. It is something they will bring up and I think that it is getting more common ... companies are becoming more aware of their shareholder base. (Institution E)

It was believed that explaining to companies why there was no investment or why an investment had been reduced could lead to a helpful dialogue. One respondent mentioned that he received many investor relations questionnaires trying to find out what he thought about certain companies although he preferred a direct approach. This comment agreed with the results of the 1991 survey which found that 57% of company respondents had commissioned surveys of City opinion (Marston, 1993, p 213).

The overall conclusion is that institutions have a fairly comprehensive and flexible approach in terms of attending all types of meetings and requesting meetings when they consider it is necessary. This confirms the importance of meetings and the relationships that build up as a result.
Views of sell-side analysts

Sell-side analysts were asked how their organisation decided on which general meetings to attend and when to request one-to-one meetings. If a company was on a list of companies to be covered then the sell-side analyst would be required to attend company meetings. There was some degree of choice in that lengthy site visits, especially abroad, might involve being out of the office for too long. Analysts might also have a degree of choice about not covering all the companies in their sector. Company size might be a factor and in some firms there was a small companies' team taking responsibility away from the main sector analyst.

General meetings

General meetings to cover special events such as mergers or rights issues were considered to be worth attending as everyone else would be there. One incentive for attending meetings was the fact that institutional clients might ring up and ask for information on the meeting if they had not attended it. An advantage of general meetings was that the analysts could ‘get the feel of the room’. General meetings were seen as being more structured and formal whereas the personal side of one-to-one meetings was seen as valuable.

...they are usually different, the general meeting has to be very structured otherwise it would just be a shambles. It is quite formal ... you are talking to about 120 to 150 people in a big room ... It is the old story, information which is known to all is commercially valuable to none. Clearly there are limits, the companies have to be very careful not to give information to one person and not to the market. But you get a much better feel of things in a one-to-one, if you look at the person’s eyes, that sort of thing, body language, you can tailor the question. The most important thing is, if I ask you a question you give me an answer and your answer will nearly always suggest a further line of questioning. You cannot do that in a big general meeting. (Broker C)
One-to-one meetings

Analysts requested meetings when they had not seen a company for a while, or when there had been a lack of news for some time, or when such a meeting might help with a research note. One analyst said that if he had written a note on a company with a buy recommendation he might ask the company if they wanted to come to his office. The company would then address the sales staff with the firm's clients also possibly in attendance. Another said he would request a one-to-one meeting if he had 'something more philosophical' he wanted to discuss. Institutional investor respondents seemed to make a point of seeing companies one-to-one either once or twice a year, whereas sell-side analysts were not so regular in their habits and tended to use telephone calls instead of meetings in some instances.

I decide which meetings I go to. I always go to all the general meetings and I request one-to-one meetings when I have a specific piece of work that I am doing. I do not request one-to-one meetings as a generality. (Broker B)

Most of the companies I follow are quite well established companies. I know their businesses very well. I suppose the only companies where I might request meetings at other times would be the newly converted building societies ... or where there is something really radical is going on ... I think most things can be handled over the telephone. (Broker F)

There were advantages in attending one-to-one meetings as opposed to general meetings. There was a greater need to have done the homework before a one-to-one in order to maintain a good reputation with the company.

Analysts did not request meetings to discuss forecasts during company close periods. However, one respondent said he could go in and talk to companies about issues that were not concerned with the next set of figures. This confirms the finding of the 1991 survey that close periods were not maintained strictly by some companies (Marston, 1993, p 254-256; Craven and Marston, 1997).
In conclusion, it appears that the sell-side analysts had some discretion about which meetings to attend. Both the general and the one-to-one meetings were seen as having advantages and being worth attending.

**Overall findings**

All three groups agreed that general and one-to-one meetings were different but that both had their uses. Companies held meetings to meet a perceived demand and to maintain contact with the market. There were differing preferences for the timing of one-to-one meetings. Some investors had an interest in having meetings mid-period because these would not be dominated by recent results. Some companies apparently preferred to tie in one-to-one meetings with results. A mid-period meeting could be used to discuss private information such as strategic long term issues whereas if the results have just come out the discussion might focus more on public information.

It is notable that holding a general meeting to discuss a special event or the results did not satisfy the information needs of the institutions and the sell-side analysts. There was then an incentive for the analyst to ask for a one-to-one meeting or telephone call to discuss the matters further. Both the institutions and the sell-side analysts wanted to gain an information advantage over their competitors so the more information the companies released in general meetings the more the demand for one-to-one meetings. The same could be said for conference calls which created a demand for follow-up one-to-one telephone calls.

Company respondents were keen to keep track of investors and analysts and to maintain and extend their invitation list. Shareholder analysis and targeting were used to manage the market for shares. Companies tried to arrange meetings with potential investors and made use of stockbrokers to identify reasons for non investment.

Institutional investors and sell-side analysts tended to accept most invitations, subject to time pressures. They would go to routine meetings to keep their knowledge base up to date even if such meetings were not
considered to be very interesting. It was also believed to be an advantage to be able to judge the general atmosphere in the meeting and match it against their own opinions.

Sell-side analysts were driven by the need to keep up with their competitors and to maintain credibility with their clients and the companies themselves. This made attendance at general meetings essential although telephone calls could be as useful as one-to-one meetings.

There was an informal ranking of investors and sell-side analysts by the companies and this affected the type of meeting offered and the availability of company management of different seniority.

Comments

The programme of general meetings, one-to-one meetings and telephone calls appeared to work well and satisfy the needs of the companies and the audience. Although there might be a case for restricting contacts to general meetings only, this would cause a disruption to well established working practices. Allowing only general meetings might make the market less efficient and reduce the opportunities for investors to advise company management in private. Investors and analysts would have less opportunity to distinguish their product from their competitors as they would no longer be able to carry out tailored questioning in private.

In view of the regularity of the different types of meetings and the tailoring of investor relations meetings to specific needs, one might almost talk of a 'virtual organisation' or City network. This exists at the interface between companies, investors and analysts. There is a stable pattern of 'transactions', no money changes hands but information is exchanged and subsequently processed by the participants. This could be in response to the failure of the market to provide adequate information via the normal channels such as financial reports. The members of the virtual organisation have organised themselves in ways that are beneficial to all three groups. Their efforts benefit the functioning of the market and individual shareholders can 'free ride' in the knowledge that a great deal of effort has gone on within the virtual organisation.
CHAPTE R F I V E

T O P I C S C O V E R E D I N M E E T I N G S

This chapter presents the results of the question which focused on the topics covered in meetings. This was designed to identify the trends in terms of topic coverage and also whether legal and regulatory changes in recent years had made an impact on this. All respondents had received a copy of a figure outlining the various key regulatory events (see Appendix 2). The similarities and differences between the responses of the three groups are then discussed.

Views of company respondents

It was apparent that the type of meeting and the audience dictated the topics covered. One-to-one meetings with sell-side analysts were often based around a list of questions which the analyst had prepared to assist in preparing a forecast eg reasonableness of growth figure for particular division. Once satisfied on these matters they may then branch out into strategic issues. Institutional investors tended to be less focused than specialist analysts.

... A pedestrian analyst will want to include a P&L account, particularly if it is anything other than half and full year results. You can see them mentally adjusting their numbers. ... the better analysts tend to be more conceptual, they step back from P&L they are more interested in the dynamics, value based management teams ... They have themes they follow and that tends to be more interesting than normal meetings because you pick a lot more up. (Company I)

Generally financial results and prospects for the future were important topics. The amount of discussion of strategy varied according to the type of meeting and some company respondents seemed to consider this more
important than others. One company mentioned that the status of new products in the pipeline was a very important area for questions. Focus on operating costs was mentioned as an important area by another respondent. Only rarely did respondents mention corporate governance as an area covered in meetings.

...our normal approach is to talk about strategy; what we have achieved, what we are seeking to achieve and where we are going ... over recent years there has been more emphasis on strategy and less on results. It has always been biased towards strategy ... (Company D)

In theory, institutions are interested in management strategy and financials. In practice they ask a couple of questions on strategy. Or we give some information on strategy to give a framework for the meeting. Most of the discussion is on recent trends and what is going on in individual businesses. (Company C).

Some companies said that they were issuing publicly more and more detailed information and this was giving the analysts more to work with. It also seemed that companies were trying to make their presentations slicker and more professional, particularly at results meetings.

It was suggested by some respondents that there is now a much greater uniformity of disclosure. All major companies are striving to meet high standards, present well and be more informative, especially if they were lagging behind previously. The practice of investor relations is maturing. It was also thought that nowadays there is much more transparency in the City with more information being given out all round. Some respondents commented that even more information is given out in the United States. There are still only a small number of UK companies that have moved to quarterly reporting. One respondent expanded on the pros and cons of quarterly reporting as opposed to the UK norm of reporting every six months. In his opinion a lot of extra work goes into the preparation of the reports and the announcement to the Stock Exchange. This does mean that public information is pretty much up to date at all times of the year.
Events that have happened tended to dictate areas that cause questioning in meetings. These included actual and rumoured acquisitions and mergers, apparent changes in strategy, recovery of the business, changes in accounting policy, the effects of new regulations on the industry and events in the business environment.

Company respondents made little reference to ethical issues. It appeared that ethical investment and employment policies, product safety and reliability and environmental issues were not major discussion topics. One respondent commented that a competitor company was seen as being too concerned about the environment and not concerned enough about shareholder value.

Impact of legal and regulatory changes

Most companies were broadly in agreement with the insider dealing law and London Stock Exchange Guidance on the dissemination of price sensitive information. All were aware of the need to stay within the legal limits. Some companies had revised their internal procedures in response to the enactment of the Criminal Justice Act (1993) and the London Stock Exchange Guidance.

Things like keeping notes at meetings were clarified when the new Stock Exchange rules came out ... generally, it was common sense and we would have been doing it anyway ... it made us formalise things a bit more. (Company F)

It has had some effect but because we changed steadily over the last three or four years, it is difficult to draw that exact comparison. We have to be particularly careful not to divulge price sensitive information to a single person. It has to be via an announcement and we have stuck religiously to that. It is possible though that some companies might have hidden behind what they perceive to be tightened insider dealing legislation not to disseminate information. But I do not think it has changed. Some of the analysts have become nervous. We also deal with some institutions where we have to sign disclaimers, that we have not told them anything price sensitive. (Company A)
The 1991 survey had identified a demand from some respondents for the London Stock Exchange to issue guidelines (Marston, 1996a, pp 35-36). It appeared from this survey that this had been a success. It was perceived that sell-side analysts were under pressure, when they returned to their offices, to say something that will move the shares. Companies, therefore, considered that these interviews have to be handled skilfully. Another problem with sell-side analysts is that they tended to send copies of their circulars to the companies for comment.

Some analysts would like to send you the circulars in advance. Do you check them or not? If you see them and they include something you do not like, do they think ‘well that was endorsed’? It is not something I encourage. I say if they put something out, they must be responsible for what they say. If they send it to me, I will look at it, try to correct any serious errors and factual comment. I am not going to check their figures, if they are just copying them from another document ... if there is a new analyst writing his first circular, I try to help him because it is to our advantage. (Company B)

This observation agreed with the results of the 1991 survey which found that company respondents received on average nine analysts’ reports for comment each year with a range from 0 to 50. At that time some companies were more helpful than others in the assistance they would offer analysts. Some would correct factual errors whereas others would give steers on errors in profits forecasts. (Marston, 1993, pp 239-241 and Marston, 1997a.)

None of the respondents considered that there was a need for more regulation of information disclosure via meetings. It was thought that more regulation could stop meetings being held altogether.

... it would be very difficult to enforce more regulation. The initial reaction to the Criminal Justice Act, had you taken it literally, would be a disaster, and you would be issuing notices every day ... You would not speak to anyone. Some of my colleagues in other companies, did interpret it that way, they used it as an opportunity to clam up. We decided not to. But you do have to be very careful that you do not discuss things too freely ... (Company E)
If you want to be 100% sure about everything then you keep your mouth shut. That is not good for anybody. (Company B)

Most respondents had been happy with the previous regulatory regime in 1991 and 1992. The legal proceedings involving an analyst in 1993, which raised questions about insider dealing, had caused general alarm in the investor relations community.

All respondents were sure that compliance was high in their particular company. Some thought that other companies were perhaps saying too much to certain analysts. This view tended to be expressed with some hesitancy. All respondents were careful to ensure that proper use was made of the London Stock Exchange Regulatory News Service to disseminate information publicly.

Many respondents indicated that there was a tension involved in being helpful but not giving too much away. Some believed that the tension was theoretical and they did not feel it personally when holding meetings.

The overall impression from companies was that there had been little change since the regulatory changes in the actual topics covered in meetings. Companies, however, were exercising more care in deciding what they could and could not say.

These results can be compared with the 1991 survey in which companies were asked to rank topics that might be discussed at meetings in terms of importance. In respect of items relating to past performance, an explanation of recent results in the context of the general economic environment was ranked most highly out of a list of seven topics. In respect of information on future prospects, company strategies in the long term, short term and for particular segments of the business were ranked as the top three out of 20 possible items listed (Marston, 1996a, pp 30-33). The findings of the current survey are in broad agreement with the 1991 survey.
Views of institutional investors

It was part of the intention of this question to discover whether the legal and regulatory changes had had any effect on the topics that could be covered in meetings with institutional investors. Some respondents had not been working as buy-side analysts for long and were better able to talk about the current situation rather than describe changes.

Respondents commented that topics covered at general meetings focused on the historical results and accounting numbers while one-to-one meetings concentrated more on the management of the business.

You get more detail in the general meeting. They read through all the figures and you work out what happened during that year. The one-to-one meeting looks more at the business and strategy. I do think they fit together and it is all about time management. There would be no point in having a one-to-one meeting with everyone sitting in front of the detailed numbers for the last year, because that is already in the price and is rather dull. (Institution F)

One respondent commented that at general meetings there was a higher quality of questioning by the sell-side analysts because of their greater specialisation.

Strategic issues seemed to be very important. One respondent considered that use of surplus cash was an important topic, whether it was to be invested or returned to the shareholders. Other issues mentioned were: acquisitions; problem areas of the business; succession; why new management had taken the job; organisational culture; reorganisations; added value; and shareholder value.

... people talk more about strategic issues than used to be the case. There used to be an obsession with shorter term financial performance, ratings between companies. That is less prevalent now. If there is an issue between investors and companies now, it is more likely to be about the strategic direction of the company, than last year’s financial performance. I think it is because investors are better educated and
better qualified than they used to be and perhaps feel better able to address the more fundamental business issues, than used to be the case. (Institution A)

Respondents did mention corporate governance issues as being an important topic for discussion. In some larger organisations, however, this was dealt with by a separate department which held its own meetings with investee companies.

Impact of legal and regulatory changes

The extent to which the insider dealing legislation and the London Stock Exchange rules and guidance restricted the topic coverage in meetings was taken seriously by the institutions interviewed. There were compliance manuals, training days and internal controls designed to protect the staff and the institution's reputation. One respondent commented that when the new insider dealing legislation was enacted people in his organisation were very concerned. As time went by, and not much seemed to change, it went to the back of their minds.

There was an awareness that news did sometimes seem to leak out into the market prior to an announcement and that when this happened it was noticed and reported in the press. Despite this reservation it was generally believed that company officials in the top 350 were briefed effectively on what they could reveal.

It was thought by some respondents that the new insider dealing legislation had caused problems for institutions.

... in the late 1980s we had closer communication with companies, I used to phone up finance directors regularly and ask them questions. Something happened in the market place, I heard a rumour from a broker. Now we are a bit wary of that because of insider dealer rules, the change in legislation. We are coming to a conclusion, however, that because of industry practice and having taken legal advice we should be able to be as informed as we were before. In as much as, not seeking
inside information because that is completely wrong and we would not be able to use it, but having a close relationship with companies now. (Institution D).

One respondent commented in detail on the impact of the legal proceedings involving an analyst, which were brought to court in 1993, under the provisions of the old insider dealing legislation. Analysts at his institution had approached senior management and asked for reassurance. As a result the firm had sought the advice of a Queen’s Counsel and been reassured that it was the responsibility of the company directors not to release inside information at meetings. This firm decided that there should be two persons in all meetings. A ‘health warning’ should be read out at the start of the meeting to advise the company that they did not wish to hear anything which could be termed price sensitive information.

Another respondent expressed views on the strict compliance rules at their organisation:

... probably once in my time here I have felt I have been made an insider. We have to report it, immediately, to our compliance people. We are not allowed to speak to anyone else in the company about it except for our lawyers, which is exactly what I did. He made a record of it and then obviously you are forbidden to write on the stock, to talk to anyone about it, to talk to the company again until that information becomes public... They are very strict on compliance ... because if something is wrong it is the whole business that is at stake. If a company ever started to say 'we should not really tell you this' we will say 'then don't', and end the conversation there. I cannot say that has never happened because it does. Companies sometimes do try to volunteer information that they perhaps should not. But I think people here are exceptionally careful, we know we have to sign a code of ethics and compliance every year. We all had to sign the new code when it came out. We go to compliance meetings a couple of times a year to remind us of the code. If we have any questions at all, we must go directly to our lawyers and not speak to other fund managers about it. (Institution C)
The suggestion of the London Stock Exchange Guidance, that there should be more than one company representative in a meeting, was considered sensible. Most respondents confirmed that there would be more than one person from their firm at a one-to-one meeting. At one medium sized firm it was not possible for two people to be present in meetings because of lack of resources.

Respondents were of mixed opinions as to whether more legislation or regulation was desirable. They mentioned that there were still grey areas and that it still seemed to be the practice that companies were steering sell-side analysts when making profits forecasts.

... our hands are pretty much tied as it is and I cannot really see what else they could do without rendering a meeting completely useless. Perhaps suggesting a company can only give a set presentation to every institution and you can only ask 'n' questions. I think company management are pretty secure in what they can and cannot say to investors ... I cannot see what other legislation they could use to improve the situation for anyone. (Institution E)

Another interviewee considered that it would become very difficult if one-to-one meetings were outlawed because these meetings were absolutely integral to picking good stocks.

The overall conclusion is that institutions were interested in hearing about the historical results. They build on the information obtained at results meetings by discussing strategic issues at one-to-one meetings. Compliance is an important issue and procedures were in place to ensure that insider dealing prosecutions are unlikely to occur.

Views of sell-side analysts

Respondents mentioned a variety of topics covered at meetings. The current state of the business, effects of currency movements, changing accounting rules and shareholder value added were frequent topics. One respondent described the measurement of 'shareholder value' added as a stock market fad introduced by management consultants. Another respondent commented that 50-60% of executives barely knew what the
term meant but had been schooled by their merchant bankers to say 'shareholder value' at every opportunity. At results meetings the formal presentation covered the results in some detail and this was useful to sell-side analysts. One analyst noted that, in his opinion, the length of the presentation had reduced in recent years. Another analyst mentioned that at one-to-one meetings companies would sometimes discuss their criteria for a takeover and he would then be able to assess this.

_They are more self conscious about shareholder value and more responsive to pressure from shareholders. There has been a burgeoning of information that has been published and discussed at meetings so the whole investor relations function has become more serious._ (Broker E)

It was mentioned that, in times of recession, meetings would cover bad debts and exposure to falling property values whereas this was not the case at the time of the interviews. One analyst commented that companies had become better at anticipating questions and answering them in the presentation packs. This analyst also indicated that in his sector, companies had only started to hold general meetings in the mid eighties and previously he had relied on one-to-one meetings and telephone calls.

One analyst mentioned an improvement in the quality of financial information issued at meetings along with more information about strategy and long term growth possibilities. In his opinion there was an increase in discussion of international competition and cost structures. Another analyst mentioned cost cutting was an unpopular topic to discuss at general meetings because of political pressures opposed to sacking staff. Instead companies would talk about investment in information technology with the implication that this would result in a saving in staff costs. Not all analysts, however, were enthusiastic about discussions of strategy:

...I try to keep the company off strategy as much as possible. It is like giving them a carte blanche to tell you nothing for 1.5 minutes ... I tend to see strategy not in terms of what a company says it is doing or what it is going to do or what is core or non-core. Company strategy to me is how they are actually creating value for shareholders. You can broadly measure that through the financials; what return on equity are they
making, what is the cost of equity? Over the last three or four years have they made investments which will make a return over cost of equity or not. Bad companies continually reinvest below the cost of equity and good companies always seem to reinvest above it. I am keener to judge companies on how they have deployed their shareholders' funds than abstract ideas the management have about what is core and non-core ... Strategy can be more interesting if companies talk to you about how they intend to exploit market positions and so forth in terms of pricing. But generally very few companies will tell you they are about to start or end a price war. (Broker F)

Impact of legal and regulatory changes

The analysts agreed that there had been a period when companies 'clammed up' as a result of the new insider dealing law. There was a general climate of uncertainty after the legal proceedings involving an analyst which raised questions about insider dealing in 1993 and the London Stock Exchange censure of a listed company in 1993. Companies became more reluctant to talk about the next results and started to refer analysts more to the consensus published by, for example, the Estimates Directory.

... the current environment is radically different from the 1980s. Before the insider dealing case, companies had a greater degree of freedom and could talk fairly freely. ... the crucial thing from an analytical point of view is that they are allowed within the law to talk about information which is in the public domain.

What comes across all the time is avoiding shocks. Provision of information helps with this. The coverage and the quality of the information is much better than it was. Only parts of that are driven by financial reporting. The financial reporting requirements are much more onerous in terms of Financial Reporting Statements. That is obviously forcing more disclosure.
companies have become more attuned to the idea that they are running the business for the benefit of their shareholders. A good way to communicate is through the medium of people like myself, who can put things into a sensible context. (Broker B)

One analyst commented that the issue of price sensitivity was still rather a grey area and that there was a problem of ‘false price sensitive information’. In a case where a false rumour was depressing the share price and the broker knew the rumour was false was he allowed to tell his clients?

The Stock Exchange rules say if you have price sensitive information it has to hit the public domain, that is absolutely right. Someone is going to get caught out after passing on a piece of information that he did not regard as price sensitive information but it just so happens that on that day the share price moves enormously for other reasons. It is quite confused. There are obvious things that are price sensitive. There are things that could be price sensitive which put you on the ‘you do not do anything list’. … there is obviously a faint risk that something no-one foresees as price sensitive suddenly becomes price sensitive and that is where analysts can get caught out. (Broker D)

Respondents were aware that they personally were at risk and some mentioned that their compliance departments were helpful in providing guidance and offering advice. In one case an analyst reported that he had changed his behaviour following a compliance seminar in 1991. Previously he would ring up a client and tell them what a company had said to him. Now he would say ‘in my opinion’ to make clear that he was not in possession of any information from the company.

In general the analysts thought that there was good compliance with the law and relevant regulations. They did mention that they did not want companies to reveal everything as this would put them out of a job. The London Stock Exchange Guidance on the dissemination of price sensitive information was considered to be setting out what the majority of companies were doing anyway. Companies were sometimes helpful in providing relatively obscure information from the public domain which helped analysts with their forecasts.
...What people can say does help... If I ring up people I ask 'is there anything in the local paper which I might have missed?' They can say 'the local paper says the fish harvests were bad' or something... X plc are quite good at setting things in the public domain. They will give you what the Hong Kong motor forecasts are when they are published. I could probably get them but it will cost me an awful lot of ringing up people and trying to get some authority. It is much easier if they say 'these are being published so you ought to know.' The Hong Kong market is up 10%, the Singapore market is down 10%, this is revealed in the local paper... it is helpful because you have to try to guess what this means to them. (Broker A)

There did not seem to be any demand from the respondents for an increase in the regulation of investor relations meetings. Some of the analysts considered things were already over regulated and the word 'paranoid' was mentioned a few times in this context. There was also a feeling that the markets would become less perfect if information flows decreased. One respondent, however, believed that enforcement could be improved.

...I think the law is big enough and strong enough. What is irritating sometimes is when you notice very public, very clear breaches of the law and there is no enforcement. I do not think it is the law itself it is the enforcement procedure, fewer lawyers more policemen... When I say 'you notice', this would be headline news we are talking about... two or three times a year a share price moves very sharply two days before an announcement and this is almost routine. No-one is kidding me that you could not enforce if you wanted to. (Broker C)

Another analyst mentioned the American system, which he considered was much more prohibitive, and had led to prosecutions over information that was contained in published research. He believed that the UK system was preferable.

There were some tensions in the relationship between companies and analysts. One analyst likened his work to a game of chess. He said that investor relations people were paranoid about giving out information that was not in some information pack. Since everyone had this
information he wanted other information since 'the object of the exercise is to find out something that somebody else does not know'. Another analyst commented that it was possible for rows to break out between companies and analysts if share prices move after a one-to-one meeting:

I do not think coverage has changed dramatically. Quite a lot of my colleagues think that insider dealing has changed the way companies operate. I think larger companies have always been even handed in the way they disseminate information into the market.

Even now you still get major rows between companies and analysts about the way they handle information. A year ago, X plc start their round of pre-results meetings and someone goes in and downgrades his numbers by 200 million. The shares fall 20p. Then there is a big hullabaloo, everybody phones up X plc saying it is not fair. X plc said no, we did not tell him what number to downgrade to. All we did was go through what he thought the numbers were, we are not saying whether he is right or wrong.

I think there is a danger here of confusing cause and effect, in that most analysts come out of these meetings and want to take a view. There is not much point of going to see a company and coming out saying well it has all been a waste of time really. If you happen to be the first person who goes in then you will take a punt on the way you think the market is going. On that occasion, other people subsequently did not downgrade after they went in. It was not something X plc said but something the analyst inferred.

I am inclined to think that the coverage of topics has not changed dramatically. Companies do not tell you what their results are going to be exactly, all they do is give you some guidance to the direction. As an analyst you should be in reasonable contact with the company anyway, and they should not tell you anything at a pre-results meeting that is going to dramatically alter your report. (Broker F)
Analysts were also aware that companies like to give the markets a positive surprise when they announce their results. In meetings they found that companies tried to 'massage market expectations down a bit' so they would try to take this into account when making their own forecasts.

In conclusion it can be said that a note of cynicism was apparent in some of the analysts' comments on topic coverage. In respect of the legal and regulatory system evidently there had been a period of adjustment to change. There was still some remaining uncertainty as to how the law stood in regard to some of the information they might receive from companies.

**Overall findings**

Topic coverage was dictated by company events and the type of meeting. All respondents were in agreement about the general areas covered.

Meetings enabled the companies to explain the detail in the financial statements and this included explanation of accounting policies. These discussions enhanced the understanding of the institutional investors and sell-side analysts.

There was overall agreement that companies were now issuing more written information, and this was partly as a result of increased accounting disclosure requirements. This meant that more time could be taken discussing strategic and other more qualitative issues in meetings.

All three groups had taken the new insider dealing law very seriously. Some institutional investors had adopted a system of stating a formal health warning at the start of a one-to-one meeting. The sell-side analysts did not seem to be doing this.

All three groups were unanimous in not wanting more laws or regulations to restrict investor relations meetings although there was a feeling that more enforcement was desirable. It was recognised that there was a grey area at the boundaries of the regulations and this sometimes led to leaks. Investors and analysts did not wish to be made an insider accidentally.
There were comments to indicate that sell-side analysts as a group were viewed with some disfavour because of their tendency to press too hard for information and for help with their research reports. The sell-side analysts interviewed did reveal a certain level of cynicism about stock market fads such as shareholder value and the value of discussing strategy.

Sell-side analysts also appeared to be more focused on current information which would be likely to make the share price move creating transactions and commissions. The institutional investors were more interested in discussing long term investment value, therefore, management quality and business strategy were more important. This difference in focus agreed with the results of the 1991 survey (Marston, 1993, pp 257-258) which found that 59% of company respondents agreed with the statement that 'sell-side analysts are too concerned with short term profit opportunities'. Only 21% agreed that 'buy-side analysts and fund managers are too concerned with short term profit opportunities'.

Comments

It is clear from these findings that compliance departments and staff training within institutional investors are a key element in maintaining the reputation of the institutions and their staff. The aim of the government and the London Stock Exchange is to maintain a transparent market and prevent insiders from exploiting their information advantage and disadvantaging other market participants. The regulations impose costs of compliance on the institutions. These costs will be passed on to customers. It may be that the balance is now right and that the costs of further regulation would outweigh any advantages.

Certainly the interview findings indicate that from the perspective of the company, institutional investors and sell-side analysts the level of regulation is about right. The survey did not cover the views of government officials, small individual investors or society at large. This is a corporate governance issue. In recent years much attention has been paid to matters such as board structure, directors’ contracts, audit and remuneration committees and the disclosure of corporate governance information in the annual report. Investor relations procedures form
part of a company's corporate governance system but the evidence from this survey is that only the concerns of the company, the major institutional investors and the analysts are important.

Sell-side analysts perform a valuable function in the capital markets in that individually and collectively they contribute to an informed body of knowledge. This enables share prices to be set more accurately and should enhance liquidity. Any critical comments on the role of sell-side analysts that were noted during the survey need to be viewed against these benefits.
CHAPTER SIX

BENEFITS OF ATTENDING MEETINGS

This chapter sets out the results of the question which asked about the benefits of investor relations meetings for the audience. This chapter considers the benefits for the audience as interpreted by the companies and this is followed by the views of the audience.

Views of company respondents

Company respondents were asked to discuss the benefits of investor relations meetings from the viewpoint of the audience.

Assessing the calibre of management

One major advantage, according to company respondents, was that meetings gave attendees the opportunity to assess the calibre of management. Some respondents thought that it was debatable whether analysts were actually good judges of management calibre, especially if they were younger or less experienced. The rapport between the management team could become apparent at meetings. Also analysts could test the consistency of the answers given by management both within the management team and in comparison to past answers.

The buy-side are very interested in judging management. It is evident that when you have new managers there, the cross examination is designed partly to find out how they think and what they are like. I think it is difficult for them to make those judgments. Partly because they do not know enough about the business, but they cannot really. They are not, on the whole, experienced in management. But the good ones do judge
people and some of them judge them quite accurately. I think the meetings are important for the buy-side for that reason. The sell-side is a different matter, they judge the management too and they will publish their views of management sometimes, which does not make them very popular. (Company E)

Other benefits

Generally it was not considered that analysts gained a competitive advantage merely by having a meeting. Analysts needed to ask better questions to obtain better insights. By asking questions at general meetings analysts might lose their edge because everyone could hear the answer. In the environment of a one-to-one meeting an analyst feels safe to ask questions about areas he does not quite understand.

Meetings enabled the institutions to become less dependent on the sell-side analysts in forming their opinion of a company. The personal relationship was important.

... they like the personal touch, to see management, there is a trust thing. They are committing £10m, £20m, £30m of their funds buying your stock and they want to see the people who run the business. (Company I)

The overall tenor of the meeting, whether it was upbeat or downbeat, was mentioned as something that would be useful to analysts. One company respondent believed that although company management had received training on presentation skills they were not very good at conveying the right message via body language and the degree of enthusiasm in making the presentation.

In summary, the company respondents were agreed that meetings were advantageous for institutions and sell-side analysts. The main benefit for all was the personal contact that could not be obtained by reading the annual report and other published documents.
Views of institutional investors

Institutional investors were asked to give their opinions on the benefits of attending meetings. This question was designed to discover why institutional investors thought it worthwhile to attend meetings rather than relying on published information provided by the company.

Assessing the calibre of management

All respondents agreed that trying to assess the calibre of management was an important element at meetings. This could be done by following the progress of a group of managers and seeing whether their plans for the years ahead were achieved. Failure to achieve promises was seen as a bad thing. Respondents also commented that it was a bad sign if managers contradicted each other in meetings. Questions could be directed at managers to see if they were managing the business for shareholder value and whether they were capable of carrying out strategy.

Interviewees also realised that as they had not themselves run businesses there was some contradiction in trying to sit in judgment on company management. It was commented, however, that they had a chance to meet many different sets of managers and could, therefore, make comparisons.

... it is clear that some companies are better managed and that is important. We are far more likely to get a negative surprise from the stock with a poorly managed company than we are in a well managed one. There is a definite difference, you see it particularly when you follow a sector. You see companies operating in the same sector and some are doing very well and others are not. This may be because of good management but there may be other reasons.

Some companies really do work for the shareholder. Others you can see that they do not and the quality of management does vary a lot. It is amazing when you do meet a well managed company. It is a joy to follow really. The company comes in, (says) 'this is what we are going to do for the next two years'. They come back in, six months later, and say
"this is where we are" and six months later they come back and say "this where we are". That is incredibly helpful from our point of view and makes the company extremely easy to follow (Institution C)

Other benefits

In general, respondents believed that meetings could provide added detail behind the numbers. The opportunity to meet management and discuss strategy was important.

Most of all you see the people running the business. At the end of the day you can have all the written information you like, but as an accountant ... you know only too well that the value of the written information is probably not enough in itself. (Institution E)

We can access management, have a dialogue. Personal contact enables us to build a relationship. (Institution B)

One respondent suggested that it was useful to ask questions about potential situations such as the effect on the balance sheet if interest rates went up by five points. Another respondent suggested that if the companies only met with stockbrokers and not directly with institutions this would be a bad thing. She often had a completely different view of a meeting than that of the brokers' analysts she spoke to after the meeting.

It was considered possible to get a competitive edge over competitors who did not have meetings. Given that most of the larger institutions did have meetings with companies, having meetings merely enabled them to keep up with the competition, unless by their skilful questioning they were able to gain an edge.

It is judgment, putting our judgment against the judgment of the market and sometimes against the judgment of the company. It is not so much that we want information. We do not want the company to tell us something that it is not telling somebody else. We want to see what their assessment is and match it with ours. Then we say 'our judgment is different to theirs, therefore we should buy or sell the stock' . (Institution D)
It appeared that respondents were able to obtain extra segmental information and other information that was not in the accounts or the London Stock Exchange Regulatory News Service Releases. This was described by one respondent as a 'second tier of information given out in a semi open market'. Some respondents would obtain this from the company broker.

The overall conclusion is that meetings are seen as being very advantageous by institutional investors. They help them to assess the company management and build up a bigger picture of the quality of the company.

**Views of sell-side analysts**

Sell-side analysts were asked to give their opinions on the benefits of attending meetings.

**Assessing the calibre of management**

In common with institutional investors, one aspect that sell-side analysts believed was advantageous was the ability to evaluate the calibre of management. This could be done on site visits or by talking to executives on results days or at the annual general meeting. Management also had to be judged in the context of whether they were in a good or bad industry. Judging management was acknowledged to be a difficult art.

_It is the most difficult job of all but one you cannot avoid. You can tell the disorganised from the organised. I am not sure if a good theatrical performance is a positive or a negative. I would much rather have someone slightly stumbling, being honest rather than a slick performance which I always mistrust. ... whenever you meet someone you form a view ... you cannot help it. Calibre is a funny word, you meet some very bright people, but it is more than that. You are judging flair and safety. In my sector safety is a big thing. Is this man going to take unacceptable risks? (Broker C)_
It appeared that respondents were able to obtain extra segmental information and other information that was not in the accounts or the London Stock Exchange Regulatory News Service Releases. This was described by one respondent as a 'second tier of information given out in a semi open market'. Some respondents would obtain this from the company broker.

The overall conclusion is that meetings are seen as being very advantageous by institutional investors. They help them to assess the company management and build up a bigger picture of the quality of the company.

Views of sell-side analysts

Sell-side analysts were asked to give their opinions on the benefits of attending meetings.

Assessing the calibre of management

In common with institutional investors, one aspect that sell-side analysts believed was advantageous was the ability to evaluate the calibre of management. This could be done on site visits or by talking to executives on results days or at the annual general meeting. Management also had to be judged in the context of whether they were in a good or bad industry. Judging management was acknowledged to be a difficult art.

It is the most difficult job of all but one you cannot avoid. You can tell the disorganised from the organised. I am not sure if a good theatrical performance is a positive or a negative. I would much rather have someone slightly stumbling, being honest rather than a slick performance which I always mistrust. ... whenever you meet someone you form a view ... you cannot help it. Calibre is a funny word, you meet some very bright people, but it is more than that. You are judging flair and safety. In my sector safety is a big thing. Is this man going to take unacceptable risks? (Broker C)
There was a view that although companies were issuing more information in printed form, analysts would still need to ask questions to be different from their competitors. It was stressed that companies were generally even handed in giving out information and it was up to the analyst to use his skill in interpreting the information.

Analysts could use one-to-one meetings to obtain guidance on their profits forecasts although companies could not tell them what the profits were going to be they could react to analysts' suggestions. One-to-one meetings allowed analysts to set the agenda and they were, therefore, seen as more useful in gaining a competitive edge.

Some respondents said that their integrity was important in gaining respect in the relationships they built up with companies. They thought that the companies would be helpful to them if they achieved a good relationship. In general they did not think that company attitudes changed according to whether they had made a buy or sell recommendation. One respondent considered what would happen if he made a sell recommendation:

It works various ways. It depends partly on the management concerned. I think the rational reaction is, they probably want to see you more. They would probably be keen to have a one-to-one to persuade you that the illogical idea you have is wrong or you get the opposite approach where they want to cast you into outer darkness. The hectoring approach is normally counter productive. (Broker D)

Overall what sell-side analysts gained from attending meetings is in many ways similar to what the institutional investors gained. It was the added insights over and above the published documents. The sell-side analysts hoped to use this information to differentiate their research product and enable their firms to generate commissions.

Overall findings

The company respondents' perceptions were in close agreement with the views of the institutional investors and sell-side analysts. Demonstrating the calibre of management, the degree of agreement between the members
of the management team and the ability of management to state and keep to plans were all important. These qualitative benefits of meetings enabled the audience to form better judgments about companies.

Both audience groups were aware of the need to keep up with the competition and attending meetings was essential. Both agreed that skilful questioning could result in gaining a competitive advantage. They were also keen to build up a personal relationship with company management.

Comments

It would be difficult to establish whether qualitative assessments about the calibre of the management team actually enabled better investment decisions to be made. Institutional investors and sell-side analysts seemed to believe in their ability to do this and company respondents indicated that some were good judges. Impressions gained from meetings with management were combined with hard data in making decisions. Disentangling the marginal benefits of meetings and measuring the advantages would not be easy.

The findings have implications for stock market efficiency. Keeping up with the competition was of key importance for institutional investors and sell-side analysts. They did not want to lose their information advantage. Although there was an acceptance of market efficiency as a general idea there was a feeling that picking good companies would enable them to outperform their rivals. The meetings were essential to the stock selection process.

Individual investors might consider it to be unfair that analysts could build up relationships with management. The extent to which extra information, such as segmental information, is issued to analysts is potentially unfair to individual investors. The annual general meeting does provide a chance for existing shareholders to ask questions of management but this right does not apply to potential investors. In any case, the environment of the annual general meeting is not comparable to a one-to-one meeting.
The existing situation appears to satisfy companies, institutions and analysts. It would be too time consuming to extend the benefits of one-to-one meetings to all actual and potential investors. Companies might like to consider the recommendations in chapter eight which suggest that the content of general meetings could be made available more widely.
CHAPTER SEVEN

ADVANTAGES AND DISADVANTAGES
FOR THE COMPANY

This chapter sets out the results of the question which considered the advantages and disadvantages of holding investor relations meetings. The institutional investors and sell-side analysts were asked to assess the advantages and disadvantages from the companies' viewpoint. By asking the audience to consider meetings from the companies' viewpoint it was hoped that they would put forward reflections that would mirror but also add to the company view.

Views of company respondents

The advantages to companies of holding investor relations meetings are considered first followed by the disadvantages.

Advantages

It was generally considered that meetings were advantageous because they provided an opportunity to sell the company.

The advantage is being accessible ... If you expect people to buy your stocks you should be there, prepared to do questions and answers, prepared to do a sales pitch. Meetings give that opportunity and it means if there is a story out there that you do not agree with, you can stop it. On the negative side, it is time consuming, there is the possibility that you can get caught out, put your foot in it, that is the danger to anybody. (Company I)
Another generally agreed advantage of meetings was that they helped the share price to reflect the true value of the company by enabling all public information to be better understood by analysts and institutions. Some respondents thought that meetings would help deter takeovers by building up loyalty among the institutions although others disagreed and considered that this was not the case. Some companies also thought that they could demonstrate effectively the calibre of management at meetings. This agrees with the findings in the previous chapter.

Our chief executive intellectually has a very good understanding ... the question and answer session allows his skills to be assessed. The finance director has a very good grasp of the business, meetings show this. (Company G)

Most respondents mentioned the fact that their key shareholding institutions held quite a large chunk of the company and the company had to talk to them as important owners.

At the end of the day you are looking after shareholders’ money ... generally public relations communication in all walks of life is becoming more and more important. But when you reckon that 50 institutions hold 50 or 60% of your shares they have a right to want to talk to you. (Company B)

Companies also obtain useful information on market sentiment from the meetings. One respondent said that meeting notes were used in writing the annual review for the annual report as this provided a useful list of topics of general concern to people. A minority of respondents mentioned that they received advice about how to run the business. For example they may receive suggestions about possible mergers and acquisitions. This, however, did not appear to be as important as the feedback which enabled them to present themselves better.

Meeting shareholders and receiving challenging questions from analysts were also considered an advantage by some respondents.

... it is very helpful to meet your shareholders. Attempts to do without the sell-side contact fail because it is a triangle and you need all sides. ...

you can deduce a lot from the form of questions and it is necessary
for selling the company. It is not like a product because you have to be pretty straight, especially if things are going wrong and you have to learn to take it on the chin. But I think it is helpful, it does force you to question, challenge yourself. That is important, it is dangerous to start believing your own propaganda. (Company E).

One respondent's company used a financial public relations firm to speak to the analysts after a meeting and obtain feedback. This respondent also found that brokers would ring him up with reactions from their institutional clients and this was very helpful. Another respondent had tried to ask institutions what they thought about his company and found that 'they look stunned and at a loss for words'. This respondent also said that sell-side analysts could pass on information anonymously about the views of institutional clients.

One output from meetings is the analyst's circular and companies often read these when they are issued to identify the negative concerns. These circulars are sometimes summarised by the investor relations officer for the convenience of top management. As noted in chapter five, there can be a problem at an earlier stage when companies are asked to assist analysts with their circulars.

Disadvantages

The main disadvantage seemed to be the costs involved in holding meetings in terms of management time. Although most respondents could understand the desire of institutions to see the chief executive they considered that the investor relations officer was often capable of dealing with questions. This relates to the issue of subjective judgments about management calibre and rapport which can only be made by seeing the people involved.

Monetary costs were not believed to be a big problem for the companies interviewed. Visits were more expensive than meetings. According to one respondent, the convention for overseas site visits is that analysts are expected to pay their travel costs with the company
picking up other bills. For UK site visits the company pays for everything. A couple of respondents used the term 'drudgery' to describe the large number of similar one-to-one meetings held with institutions.

Another disadvantage, that most companies agreed could be a problem, was the risk of releasing information which could be of benefit to competitors. Also companies thought there was a danger of accidentally making people insiders and preventing them from dealing. One respondent mentioned that it was necessary to try to avoid areas of concern and it could be stressful wondering whether the meeting was going to go into those areas.

*If we know we are about to do something in a week then top management will have that on their mind. There is always a danger that they might say something almost by accident because of this. It is more than the embarrassment factor. Imagine having to bring forward announcements. It is more that, rather than 'am I going to get hauled off in handcuffs?' Though one may lead to the other of course.* (Company I)

One disadvantage is that the meeting can go badly and several respondents mentioned this. One company had experience of a buy-side analyst recommending an investment, the fund managers requesting a meeting and then deciding not to invest. Another mentioned that it was possible to lose control of a meeting and this was a bad thing.

*The disadvantages are of course that you make a mess of it and everyone goes away thinking the company is sinking into the sunset and the management are useless anyway.* (Company H).

Only one respondent mentioned that they had been made aware of objections to meetings from bodies representing private shareholders. This might be seen as another disadvantage of holding meetings although the respondent thought that these objections were not valid.

*Occasionally several bodies representing private shareholders suggest an end to one-to-one meetings because they are afraid that analysts might obtain some advantage. It is this typical thing about being jealous if somebody is getting more information.* ...private shareholders
benefit, although initially the analyst obtains the information, they use it to everybody’s ultimate benefit. You also have to remember that many analysts work in institutions such as pension funds and insurance companies. They are looking after our pensions. It is not just somebody making money to go into somebody’s pockets. (Company F)

On balance it appeared that companies saw investor relations meetings as being advantageous from several points of view and although there were disadvantages these were manageable. These findings were in agreement with the 1991 survey (Marston, 1996a, pp 33-34). Ninety-three percent of respondents had agreed that meetings with sell-side analysts were a valuable means of communication and only 3% of respondents would have preferred not to hold meetings with sell-side analysts. In the case of meetings with buy-side analysts the percentages were 96% and 2%.

Views of institutional investors

The advantages to companies in holding investor relations meetings are considered first followed by the disadvantages.

Advantages

An advantage for companies was seen by one respondent in terms of the competitive capital market:

... why would a company want meetings? In an ideal world they will send out one annual report and accounts and get on with running the business. Perhaps they get to present their case as they are competing for our capital over X plc. They want our investment rather than Y plc having it, so they want to tell their story to attract your capital. They are selling their business to us really. (Institution F)
There was some uncertainty and disagreement as to whether increased information made available by meetings would result in the advantage of decreasing a company's cost of capital. One respondent was of the opinion that share prices of poor communicators had been 'getting hammered recently'.

Respondents agreed that by having meetings and increasing the flow of information to the market the shares would be priced more fairly. One respondent remarked that if a share was overvalued then management might not be so keen to give out more information and achieve a down-rating of their shares. A few respondents mentioned market efficiency in this context though not all were convinced that markets are efficient.

I suppose more information will set the share price better, presumably efficient market theory will say, even if there is more information to a few people it will set the price better. Whether that is an accepted moral position is highly questionable. It is not a major driver from an investment manager's viewpoint. The viewpoint of an investment manager is you do not want the share price to be at the right level. I suppose you would never make any money. You are not looking at it from that perspective, you hope that you can develop an understanding of something which helps you appreciate that the shares are at the wrong price. That is why you are doing it. (Institution A)

There was some disagreement as to whether having meetings with institutions would build up investor loyalty which might be useful in a takeover. It was suggested that investor loyalty could be built up and be advantageous in other situations apart from takeovers. This loyalty could be useful in gaining support for management plans.

The loyalty I am talking about is if the company has done exceptionally well. Then say they are starting up a new division and this division will be in a special type of chemical to be developed. We think 'we have never have heard of this before, we will give them the benefit of the doubt'. But if the company has not been open with us in the past well we will say 'this is awful we will sell the stock'. (Institution D)
One respondent noted that it was difficult for large investors to unwind large commitments even in today's liquid markets. Meetings could then help companies to assure their committed investors that the management are 'the right people managing the right company with the right strategy'.

An advantage of having meetings with shareholders is that companies can ask for opinions and obtain valuable feedback on their plans:

There are times when we have had meetings where we have said 'we disagree with x, y or z'. I imagine they see a greater bulk of their investors and are getting the same message, and that is an advantage. There is no point pursuing strategy which is going to aggravate your shareholders. (Institution E)

Disadvantages

Institutional investor respondents mentioned the pressures on company management time as being one disadvantage. Sometimes management made comments that it was time to get back to running the company with the implication that being in a meeting was taking management away from important tasks. Apart from the use of time respondents did not seem to think that other financial costs were a significant disadvantage for companies.

Another possible disadvantage for companies was the release of extra information via meetings which then could be used by competitors. Although respondents agreed that companies often used this as an excuse not to provide information they generally thought that this was a smoke screen. One buy-side analyst was quite vehement in his view that UK disclosure was not adequate and that in his specialist industry in particular they were under disclosing compared to other industries. This was at odds with company interviewees, some of which had claimed that they were disclosing far more than ever before. One respondent did recognise that companies had to balance the competing dangers of failing to satisfy the investors by releasing too little information and helping the competition by releasing too much. A couple of respondents noted that
there was a ‘follow my leader’ effect. If one company in a sector started issuing more information in a particular area then others would have to follow.

It was also acknowledged that companies did have a problem in complying with laws and regulations about revealing information even-handedly. A couple of respondents noted that the problem was more acute for the institutions because it was their whole livelihood. It was considered that generally companies handled this problem quite well although smaller companies were seen as being less expert and sometimes saying too much accidentally.

Although respondents were appreciative that many companies had improved their presentation skills it was suggested that if meetings became too glossy and slick this could work against them. A bad presentation, however, could be disadvantageous for a company.

One disadvantage for a company holding meetings with institutional investors is that they are, or may be, a less expert audience than sell-side analysts. This may involve the company in more explanatory work.

Overall, institutional investor respondents recognised that there were both advantages and disadvantages for companies in holding meetings for them. There was a strong feeling that meetings were an important part of being a good communicator with your shareholders and that the advantages outweighed the disadvantages.

Views of sell-side analysts

The advantages to companies holding investor relations meetings are considered first followed by disadvantages.

Advantages

Sell-side analysts believed that meetings helped to generate business in the companies’ shares and maintain a liquid market. If no sell-side analysts were writing about a stock this might cause concern among institutions. It was indicated that smaller companies sometimes only had the company broker writing research on them and they were keen to get
more brokers interested and also more press coverage. It was thought that sell-side analysts provided an informed body of opinion and an objective view which was in the companies' interests. Also there was an advantage to meeting sell-side analysts because institutional investors were less specialised.

There was comment that some companies had started mixing sell-side analysts and institutional investors at results and other general meetings. It was suggested that both institutional investors and companies gained from this.

...sell-side analysts tend to be of a high calibre, we can be more grotty and ask nasty questions ... if you attend a meeting where there are both sides, it is rare that the institutional investors ask a question. They don't regard it as their place to stir things up. They are more interested in keeping their opinions to themselves, and not opening their hand as to whether they are buyers or sellers. They try to get the feel of the meetings. (Broker A)

Some analysts thought that the companies were keen to demonstrate the calibre of management. Others thought this was not seen as particularly advantageous by companies as there were other things to consider such as the state of the industry itself. One analyst noted that companies were more keen to have meetings when things were going well and that if a company cancelled meetings this was a bad sign.

Another advantage for companies was the extent to which analysts were a valuable resource for marketing their capital.

In my sector I have noticed highly rated companies with good management increasingly treat analysts as a resource rather than vice versa ... Although there are about 30 sell-side analysts who attend every sector meeting, there may be only about six who are going to generate meaningful amounts of business. The point is, as a company, to use the six analysts to increase the marketing of the company's stock and broaden their shareholder base. Bad companies have a major problem because analysts do not want to recommend their shares ... people forget the point of investor relations in a company is to try
to maximize the company's share price or raise the price subject to legal constraints. An intelligent company can use analysts very effectively. (Broker F)

Disadvantages

It was not generally considered that the time and other costs of holding meetings were a big problem for companies in view of the advantages and their responsibilities to shareholders. One analyst commented that he often made enquiries before the end of the accounting period when the finance department was at its busiest. With all analysts doing this there could be a problem of peaks and troughs in the number of enquiries and the amount of other work to be done. Another commented that where a company was employing two or three people on investor relations it was hard to say whether it was worthwhile. Also the costs of investor relations had increased in recent years.

*It is all more costly and time consuming, so it is a zero sum gain, it is an expense on the industry, so it is not one that you dare give up.* (Broker E)

It was agreed that releasing information could be disadvantageous in terms of revealing information to competitors. One analyst provided a counter argument to this view. If the market needed the information then the companies' shares would be at a discount until the information was revealed because there were plenty of other companies in which to buy shares. He also commented that as finance directors held share options they had an incentive to reveal information which would allow the share price to increase as a result of decreased uncertainty.

*I think the major disadvantage is that information they release can be turned against them. Competitively it can be difficult for them to issue some information, perhaps turnovers, perhaps strategy ... I think they feel they must give something to the market to placate the shareholders but equally they are conscious of what they might be giving to their competition.* (Broker E)
The analysts agreed that companies were, in general, very careful about complying with the listing agreement rules and not making someone an insider accidentally. Although this could be a disadvantage of having meetings, it did not often arise.

It was also indicated that once a company had released information it was difficult to back track and reduce the level of disclosure. This would be seen as suspicious by the investing community.

Generally, it was not thought that building up a relationship with sell-side analysts was advantageous in preventing takeovers. Analysts said they would consider the interests of the shareholders rather than management in such circumstances and they agreed that poorly managed companies should be taken over. In contrast it was commented that the work of sell-side analysts helped the share price to be set more accurately and make investors more aware of issues such as business cycles. Having the share price set correctly would help prevent takeovers.

One way of getting information into the market is through people like me. It must suit companies for their share price to be correct. A sensible investor relations policy is absolutely critical. If the share price is too high it is going to correct and that will disappoint people. If your share price is too low it is worse and people will just take you over. (Broker C)

It was also commented that the length of time for which a company had been quoted was of relevance. Managers of recently quoted companies who had only seen their share price go up tended to become exasperated and tried to get analysts to change their mind if things started to go against them. Where companies had been quoted for longer, management issued information and allowed the City to make up its own mind.

In conclusion, the sell-side analysts believed that they contributed to the workings of the capital market and that companies obtained benefits by holding meetings with them. There was also a feeling that sell-side analysts were superior to buy-side analysts in their abilities to judge companies.
Overall findings

The views of company respondents and the audience for meetings were quite similar. There was general agreement that meetings were costly in terms of management time although the financial costs were less of a burden. There were risks involved in possibly releasing information to competitors and accidentally making someone an insider. All groups agreed these risks existed but it was considered that companies could use the competitive disadvantage argument as an excuse. There was agreement that the benefits outweighed the costs.

The benefits that companies gained by receiving feedback, suggestions and information about market sentiment were acknowledged by the companies and confirmed by the opinions of the audience. All three groups agreed that meetings enabled a company to market its capital, help to improve liquidity and help the market to set a fair share price.

There was overall agreement that the personal contact side of meetings enabled loyalty to be built up among investors. This is not necessarily beneficial in preventing takeovers but may be useful when a company undertakes a new project and needs the support of City opinion.

The congruence of the views of company and audience respondents confirmed the idea of the 'virtual organisation' existing at the interface between companies, institutions and firms of stockbrokers. There was an awareness of the costs and benefits to companies amongst all participants. There existed a stable pattern of meetings in which information exchange occurred. This was dependent on the mutual recognition that companies continually made cost/benefit assessments about disclosure, within the constraints of the regulations.

Comments

Holding investor relations meetings is not a one way process. Company managers release information but they also receive useful feedback, suggestions and advice. Challenging questions from the audience caused managers to reflect on their message. This finding agrees with Holland (1997, pp 37-42) who talks about 'dynamic exchange and learning'
between companies and institutional shareholders. Holland's study concentrated on communications with institutional shareholders whereas this study also looked at the relationship with sell-side analysts. The importance of the sell-side analysts as a resource to assist in the marketing of capital is an additional facet of interest arising from this study.

The references made by some interviewees to selling the company and presentation skills emphasised that the capital markets are very competitive and that the marketing of a company's capital is as important as its marketing of products and services.

Holland (1997) found that FTSE-100 companies 'saw themselves as operating in a competitive market for credibility and understanding'. This is in agreement with the findings of this survey. The 'follow my leader effect' and the overall impression that all companies were striving to improve disclosure was an important theme.

The theme of market efficiency emerged in the responses reported in this chapter. The general understanding was that meetings were advantageous in helping to ensure the correct valuation of share prices. In contrast, there was still a feeling from some of the audience that they could identify mis-priced stocks despite being aware of the tenets of market efficiency.
CHAPTER EIGHT

SUMMARY AND CONCLUSIONS

Chapter two reported on the advance questionnaire in which company respondents were asked about the management team in attendance at meetings and the procedures for recording meetings. All three groups were asked to provide some information about the number of meetings in a twelve month period and companies were asked about the size of audience at meetings. Chapters three to seven presented the results of interviews with ten FTSE-100 companies, six institutional investors and six sell-side analysts. The survey investigated investor relations meetings by asking the participants five broadly based questions. In addition,

The main findings for each chapter are noted below:

Current practice in organising investor relations meetings

Respondent companies were, on average, holding the same number of general meetings (seven per year) in 1996 as they had been in 1991, although the average number of one-to-one meetings had increased quite substantially from 32 to 52. The audience size for meetings had also increased. Sell-side analysts attended fewer meetings than institutional investors because they were responsible for following a smaller number of companies.

The team for meetings depended on the type of meeting but the main participants were the finance director, chief executive and investor relations officer. Other members of the management team were present and sometimes involved in discussions and making presentations at selected meetings. Companies had to exercise care in exposing managers without investor relations experience to questioning by analysts. In some companies the external investor relations consultant, company broker and merchant banker attended certain meetings.
Most, but not all, companies made some attempt to record the proceedings of investor relations meetings although this varied from a tape recording to brief notes and depended on the type of meeting.

**Importance of meetings in the investor relations process**

All three groups of respondents agreed on the importance of meetings although one-to-one telephone calls and conference calls were also used to a great extent. The different types of meetings served different purposes. General meetings to announce results or special events such as capital issues were seen as an essential part of keeping the investing community informed. The audience of institutional investors and sell-side analysts used these meetings to maintain their knowledge base. Companies issued information packs and held question and answer sessions after their presentation. The audience could assess the mood of management and the overall feeling of the rest of the audience. There was a view among both institutional investors and sell-side analysts that it was best to ask questions in private after the general session to prevent competitors from benefiting from their ideas.

One-to-one meetings were seen by companies as an essential service to important shareholders. The institutional shareholders were aware that they were privileged in being granted this type of meeting. They justified this in terms of the large sums of money at stake. Companies were also committed to maintaining a relationship with sell-side analysts although there was a need to be on their guard and not reveal too much information. In particular, the desire of sell-side analysts to receive guidance on their profits forecasts introduced an element of tension into the relationship. In contrast, the chance to move market expectations into line with expected results was seen as a valuable way to avoid shocks and large movements in the share price.

Site visits, including overseas locations, had an important role to play in some sectors and the audience particularly appreciated the chance to meet managers of operations.
Reasons for holding and attending meetings

Companies held meetings to meet a perceived demand and to maintain contact with the market. All respondent companies held half yearly and final results meetings. The number and timing of other general meetings was dictated by events particular to the company.

There were differing preferences for the timing of one-to-one meetings. Some respondents preferred having meetings mid-period because they would not be dominated by recent results and would focus on more general issues. Companies, however, may prefer not to have them mid-period for this reason.

Institutional investors tended to see their companies once or twice a year as a matter of good housekeeping whereas sell-side analysts only requested one-to-one meetings for a specific purpose.

Although companies had an informal ranking of institutions and sell-side analysts, all were treated equally in terms of access to general meetings and efforts were made to meet the demand for one-to-one meetings. The invitation list for general meetings included all relevant contacts at investing institutions and all sell-side analysts known to be following the shares. Companies aimed to keep these lists up to date.

Topics covered in meetings

The main topics covered were financial results, business conditions, strategy and firm specific events such as recent or proposed takeovers. Meetings with sell-side analysts might focus on the forecast the analyst has prepared. Topic coverage varied according to the type of meeting but all participants were at pains to point out that price sensitive information was not discussed.

Although discussion of strategy was favoured by most interviewees some sell-side analysts thought that these discussions were vague and not very useful. Sell-side analysts tended to be more focused on short-term issues such as forthcoming profits figures.
Although shareholder value was mentioned by several respondents there was no mention of business process re-engineering, activity based management, investors in people, benchmarking or total quality management.

This question was intended to enable the effect of the changes to the legal and regulatory regime to be assessed. After a period of reflection it appeared that participants had come to a consensus that investor relations meetings could continue very much as before. There did not appear to be any particular topic which had ceased to figure at meetings. There seemed to be a feeling that companies in general had increased their disclosures overall, either in their annual report or elsewhere, in response to the new situation. There was a feeling that companies were slightly more careful about steering sell-side analysts with their profits forecasts but some reduced assistance was still being offered.

There was no support for more restrictive regulation of investor relations meetings although it was noted by some respondents that enforcement was not always carried out in respect of well-publicised information leaks. The investors and analysts were required to follow their firm’s compliance procedures and the general feeling was that this offered them reassurance and helped to protect the reputation of their firms.

Benefits of attending meetings

The main advantage of meetings was the chance to assess the calibre of management and to gauge whether they were upbeat or downbeat. It was also important to observe how much in tune with each other the management were. Over a period of time it was possible to assess how management measured up to their promises.

Companies’ meetings with institutions reduced both groups’ reliance on the opinions of sell-side analysts. However, neither companies nor institutions wanted to do without sell-side analysts altogether.

Dissemination of extra information in addition to the annual report etc also seemed to be an advantage as this could be requested at meetings or by telephone. There was a general feeling that this information was only beneficial to expert users and was not price sensitive.
Advantages and disadvantages of holding meetings

The views of company respondents and the audience for meetings were quite similar. They believed that investor relations meetings were advantageous for a number of reasons and although there were disadvantages these were manageable.

Although investor relations meetings were considered to be costly in terms of management time, however, monetary costs were not considered to be a significant problem.

Meetings provided the companies with an opportunity to market their capital and receive valuable feedback from investors and sell-side analysts.

It is essential for a company to be a good disclser and to maintain a sophisticated investor relations programme if it wants to attract institutional investors and achieve a liquid market in its shares. In contrast if a company becomes too slick and professional in making presentations this can be interpreted as a lack of sincerity by the audience.

A good disclosure policy can help the stock market to set the share price correctly by reducing information asymmetry. It can help to prevent share price shocks. It is doubtful whether investor relations has the effect of building loyalty which will help to prevent takeovers. It may, however, help to ensure that management receive support for new developments from major investors.

One potential disadvantage was the danger of releasing information which could benefit competitors. Another danger was inadvertently giving out price sensitive information although all respondents agreed that this had never or rarely happened in their experience.

Investor relations meetings help to build a mutually beneficial relationship between companies, investing institutions and sell-side analysts.

Comments arising

The results reported in chapters two to seven give rise to a number of comments which will now be summarised.
The existence of a privileged group of investors and analysts with an advantage in terms of access to company management can be viewed as a corporate governance issue. There could, therefore, be a case for increased transparency of the investor relations process.

Investor relations meetings contribute to the working of the efficient market because they assist in the process of information disclosure and understanding which enables the share price to be set more accurately. Any restriction of meetings, such as allowing only general meetings and banning one-to-one meetings could reduce market efficiency. Investors and analysts would have less chance to distinguish their product as one-to-one meetings allow them to exercise their skill in questioning and form a unique judgment about companies.

Investor relations meetings can be viewed as a 'virtual organisation' in which information exchange occurs. This results from the failure of the market to provide adequate information via formal written reports. Participants in these information exchanges benefit but also individual shareholders can be said to benefit as the effort involved in investor relations helps to set the share price.

Compliance with the laws on insider dealing and London Stock Exchange regulation imposes a regulatory burden on participants at investor relations meetings. This has implications for the theory of regulation and the extent to which the benefits of regulation outweigh the costs. Participants in the survey considered the level of regulation was about right.

Sell-side analysts perform an important function in the stock market as their research helps to create a body of knowledge that is used in setting share prices. Both sell-side analysts and institutional investors see assessment of management calibre as an important issue. This can only be carried out by having meetings. There is a keen sense of competition between members of these groups along with an idea that they can use their information advantage to pick good stocks. This is despite their awareness of the concept of market efficiency.
Investor relations meetings enable companies both to inform the market and to receive useful feedback. Company representatives are aware of the importance of presentation skills and the fact that they are involved in marketing their company’s capital in a competitive arena with many other companies vying for institutional investors’ money.

**Discussion of results**

Investor relations meetings are thriving and investor relations has grown in importance. There has been a collective effort to adapt to the two major shocks to the status quo (the legal proceedings involving an analyst which raised questions about insider dealing in 1993 and the London Stock Exchange censure of a listed company in 1993) and to justify well-established practices. It appears that participants have succeeded in overcoming doubts and uncertainties and continued to maintain their advantageous close relationships.

Throughout this survey a number of references have been made to the problem of price sensitive information. It might seem contradictory that meetings can be useful to analysts and institutional investors yet not contain any price sensitive information. It would appear that information which is useful to the analyst may not transgress the law and regulation. Companies do not reveal their actual results but assist analysts with their own modelling. One-to-one meetings and private telephone calls appear to be more problematic as other analysts are not present. The disclosure regulations and competition from other analysts, however, should ensure that no serious malpractice occurs. If companies do overstep the mark in selective briefing of analysts this will lead to complaints from other analysts and quite possibly adverse comment in the financial press.

From the viewpoint of the interested outsider, the individual investor, the situation can be criticised. Privileged access to management and additional information is granted to a few although it could be argued that everyone benefits from the fact that the information is compounded into the share price. The individual investor probably does not have the skill in analysis or a large enough holding to justify attending a special
meeting and devoting time to absorbing detailed information about the company. The market is made efficient by the analysts and the fund managers and this offers 'price protection' for small investors.

There is a public policy issue associated with the findings of this survey. The findings agree with the research of Holland (1997) who states:

This research ... reveals that private disclosure is central to reducing the information gap between corporate users of capital and institutional providers. However the research does not reveal how, if at all, the broader public interest is being served by such interactions. This can only be achieved if the private meetings are made more transparent in some way, and the private interactions are shown to be making a positive contribution to innovation and national competitiveness.

Of course regulation is costly and it is not always clear who will bear the costs of any proposed changes. The participants in this survey were clear that they were not in favour of more regulation and there was evidence that costly compliance procedures were already in place to deal with the existing regulatory burden. It may be that the market will provide the solution if companies see that it is in their interest voluntarily to increase the transparency of their investor relations meetings. The increasing popularity of the Internet as a means of disseminating information in society is a hopeful sign and this could be the way forward.

The results of the interviews show that the three way relationship between companies, institutions and sell-side analysts is important:

- Personal relationships among the three groups are seen as valuable.
- Sell-side analysts create an informed body of knowledge which is of value to companies and to institutions. This assists in maintaining the correct share price and share liquidity.
- Companies receive valuable feedback and suggestions from institutions and sell-side analysts.
• Institutional investors can make use of research reports and the verbal opinions of sell-side analysts.

• Sell-side analysts help to generate commissions for their firms. Much of this business comes from the institutions.

Recommendations

A number of recommendations for UK quoted companies are suggested by the results of the interviews and the comments and discussion arising from those results:

Increasing the transparency of the investor relations process

• Companies should publicise dates of investor relations meetings and conference calls in advance and make available company fact books, presentation material, minutes of questions and answer sessions and conference calls. It might be argued that confidential matters are sometimes discussed in meetings and that the minutes would have to be edited to remove such items. An example could be a meeting at which a company discusses possible future developments with an institution and asks for feedback. One problem likely to arise is if more information is available to everybody then individual analysts will have an incentive to press for even more information privately.

• Fact sheets should be issued when new information has been released. Companies may from time to time make an ad hoc information release of additional information to analysts. This problem was identified during the survey interviews. Any additional information issued at the request of an institution or sell-side analyst could be made available to all by preparing a series of dated fact sheets as the need arises.
Companies should keep a file of all analysts' reports and details of the consensus forecast and provide access to individual investors. Analysts benefit from meetings and telephone calls and consider that these contacts are essential in helping them to maintain a competitive advantage. This suggestion would help to counter arguments that analysts should no longer have privileged access to company management. Analysts should be able to send their research reports to their own clients first. Other investors would subsequently be able to ensure that fair play had been observed.

Enhancing the timeliness and completeness of information

The Internet and e-mail should be used to enhance the timeliness and completeness of information available to all investors. This will help to put individual investors on an equal footing with institutional investors and analysts. The results showed that meetings were used to disseminate information to a privileged audience. This recommendation will enable companies to be more even handed in their treatment of all investors and may even reduce pressures for stricter regulation.

The availability of and the method of access to additional information should be publicised in reports to shareholders. Individual investors could be made aware of this information and how to obtain it via the annual and interim reports and the company's home page on the Internet.

Forward looking information

Forward looking information provided in meetings could be provided in the annual report in the OFR as suggested by Weetman and Collins (1996). The results show that although companies are producing more information in annual reports and other official documents
the demand for investor relations meetings has not fallen. The results also showed that investors and analysts are interested in future strategies of the company. If companies were to take up this recommendation, however, there would probably be a demand from analysts to be informed of any changes as they happened rather than wait until the next annual report. Also it is quite likely that analysts would ask for additional forward looking information.

**Improving the impact of the investor relations programme**

- Presentations at meetings should be well prepared and executives should develop their skills as presenters. The results show that the audience are assessing managers during presentations. The overall image should not be allowed to become too polished at the expense of sincerity. The results show that audiences see a very slick performance as a negative and they may feel that management are trying to hide something.

- Management teams should demonstrate their quality by preparing a plan which describes where the company is at the moment, where it is planning to go and the key steps along the way. The results show that if management can do this and keep investors updated regarding their progress against the plan then this will create a good impression.

- Management teams should demonstrate a good rapport with each other at all types of meetings. The results show that if managers contradict each other during investor relations meetings then this can create a bad impression.

**Implications for policymakers and regulators**

The results can be used to highlight the following points which may be of interest to policy makers and regulators:
• Any further regulation of investor relations meetings, such as banning one-to-one meetings, would be unpopular in the City and possibly affect the workings of the capital market in setting share prices. The results show that market participants think that the current level of regulation is about right and that further restrictions would be disadvantageous.

• It may be desirable to require more formal disclosure, for example more forward looking information or quarterly reporting, but it should be recognised that mandating greater disclosure will not reduce the demand for investor relations meetings. The results show that investors and analysts need to distinguish themselves from their competitors and this involves asking their own tailored questions and attempting to obtain additional information and insights while remaining within the spirit of the existing law and regulation.

• Additional regulation is probably unnecessary as the market may be in the process of producing its own solution to any perceived problems of unequal access to information. Modern technology involving the use of e-mail and Internet web sites is increasingly being used by companies to disseminate information cheaply and easily.

Further research

This survey has been restricted to a small number of FTSE-100 companies. Holland (1997) surveyed companies in the FTSE-500. There is a need to research smaller companies who may well experience greater difficulties in their investor relations programmes. This is because of their relative lack of experience and the lower level of institutional and sell-side analyst interest. There were suggestions in this survey that smaller companies were less adept at avoiding the release of price sensitive information. It would also be useful to carry out an international comparison to see how well other sets of rules and regulations operate in respect of the investor relations process.
One topic which is worthy of further investigation is the extent to which the management of the firm is affected by suggestions, feedback and advice from investors and analysts. The current survey indicated that there was some influence but a more focused investigation would be valuable.

The extent to which companies are voluntarily increasing the transparency of their investor relations meetings is also worth investigating. At the moment company announcements to the London Stock Exchange are not immediately available to the public but some companies are putting them on the Internet. Are any companies also providing the extra detail suggested in the section above?

There was a feeling in some of the interviews that individuals, of comparatively modest means, who choose to buy shares would not have the ability to benefit from the extra information transmitted by means of the investor relations process. It would be interesting to obtain the views of this group of investors and to compare their decision making processes with those of the expert group.
APPENDIX 1

LEGAL AND REGULATORY FRAMEWORK

In the United Kingdom, insider dealing is covered by the Criminal Justice Act 1993 (Great Britain, 1993). There are three criminal offences defined by the Act (section 52).

- Dealing by an insider.
- Encouragement of a third party to deal on the basis of inside information.
- Disclosure of inside information to a third party otherwise than in the proper performance of one's employment.

An insider is a person who has inside information and who knows both that it is inside information and that it is from an inside source (section 57).

Inside information is information which (section 56):

- Relates to particular securities or to a particular issuer or issuers but not to securities generally or issuers generally;
- is specific or precise;
- has not been made public; and
- if made public, would be likely to have a significant effect on the price of any securities.

The Act does not provide a definition of the terms 'specific or precise' or 'significant effect'. Section 58 provides a non-exhaustive list of when information is regarded as being made public.

Thus an investor relations officer who discloses price sensitive information, which has not been made public by means of a formal announcement, to an institutional investor or analyst who may deal or
advise others to deal may be guilty of a criminal offence. An institutional investor or analyst who receives price sensitive information at a company meeting and uses that information will also be caught by the legislation.

A more detailed discussion of the legislation can be found in Herrington and Glover (1994).

The regulations of the London Stock Exchange contained in the Listing Rules (the Yellow Book) (London Stock Exchange, 1997) provide that a company must notify the Company Announcements Office without delay of:

- any major new developments in its sphere of activity which may lead to a substantial movement in the price of its listed securities; and
- changes in its financial condition or performance or expectations of performance.

The information must not be given to anyone else before the Company Announcements Office. An announcement at a meeting must be no earlier than the time it is published in the market.

The underlying principle, as stated in the introduction to the rules, is that an issuer must make full and timely disclosure about itself and its listed securities at the time of listing and subsequently. The listing rules and in particular the continuing obligations should promote investor confidence in standards of disclosure, in the conduct of listed companies’ affairs and in the market as a whole.

The London Stock Exchange Guidance on the dissemination of price sensitive information (1996) provides useful guidance as to how investor relations practitioners can operate within the rules. It offers the following comments on the crucial matter of defining price sensitive information.

Attempts at a precise definition of 'price sensitive' are not possible, since it is generally necessary to take into account a number of factors specific to the particular case, in addition to the information itself which cannot be captured in a mechanistic formula. These include the price and volatility of the share and prevailing market conditions. No such definition is included in the relevant legislation.
A company should be able to assess whether an event or information known to the company would have a significant effect on future reported earnings per share, pre-tax profits, borrowings or other potential determinants of the company's share price. Listing Rules indicate events which have to be announced to the market because they may be price sensitive. These include dividend announcements, board appointments or departures, profit warnings, share dealings by directors or substantial shareholders, acquisitions and disposals above a certain size, annual and interim results, preliminary results, rights issues and other offers of securities. In other areas judgment will necessarily be required.

The more specific the information, the greater the risk of it being price sensitive. For that reason companies should not disclose significant data, least of all financial information such as sales and profit figures, to selected groups rather than to the market as a whole. Even within these constraints there is plenty of scope for companies to hold a useful dialogue with their shareholders and other interested parties about their prospects, business environment and strategy (particularly in the medium and long term).

The guidance notes provide a framework for investor communications covering the following main points:

- The overall policy for control and dissemination of price sensitive information is the responsibility of the Board, although its execution will usually be delegated.
- Responsibility for communication with analysts, investors and the press should be clearly defined.
- Companies should consider making their internal policies on communication known outside the company.
- Companies should make arrangements to keep price sensitive information confidential until the moment of announcement.
- Where appropriate companies should make use of their advisors to assist in determining whether information is potentially price sensitive.
In respect of conduct of meetings with analysts the guidance suggests the following.

Some companies are concerned that they may be misrepresented or mistakenly accused of providing price sensitive information following meetings with analysts. These companies should, if they think it necessary, look at internal procedures to reduce these risks. These procedures could, for example, include ensuring that more than one company representative is present during these meetings and that accurate records of all discussions are kept.

In addition, companies need to take account of laws and regulations of other countries in which they have a stock exchange listing.
**APPENDIX 2**

**Figure Accompanying Interview Request**

*Figure: Legal and regulatory framework governing company meetings with analysts and institutional investors*

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### APPENDIX 3

**SAMPLE COMPANY INFORMATION**

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<td>E</td>
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<td>Services</td>
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<td>J</td>
<td>Services</td>
<td>76-100</td>
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Notes:

1. Companies in the FTSE-100 were divided into three broad sectors: manufacturing (46%); financial services (18%); and other services (36%). This enabled the spread of sectors within the sample to be compared with the spread within the FTSE-100. A chi-square test showed that the sample was not significantly different from the population (at the 1% level).
2. Based on Market Value of FTSE-100 companies in October 1995.
REFERENCES


London Stock Exchange (1997), The Listing Rules (The Yellow Book), London Stock Exchange Ltd.


Myners, P (1995), *Developing a winning partnership. How companies and institutional shareholders are working together*, a report of a joint City/Industry working group, chaired by P Myners and established with the encouragement of the Innovation Unit of the DTI, Department of Trade and Industry, London.


INVESTOR RELATIONS MEETINGS:
Views of Companies, Institutional Investors and Analysts

As the capital markets have become more sophisticated, companies have increasingly devoted resources to investor relations. A key aspect of a company’s investor relations programme is the meetings it holds with institutional investors and sell-side analysts. The conduct of these meetings is regulated by the insider dealing laws, the London Stock Exchange listing agreement rules relating to keeping the markets informed and its Guidance on the dissemination of price sensitive information. The 1990s have seen changes in the law and the introduction of the new guidance.

This research report published by the Research Committee of The Institute of Chartered Accountants of Scotland is based on the findings of interviews with finance directors or investor relations officers of FTSE-100 companies, with institutional investors and sell-side analysts. The focus of discussion was investor relations meetings. The intention was that the interviews would provide insight into the current practice of investor relations meetings.

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