



## **The Road to Recovery; It's Time to Recast Your Corporate Story**

A lot has been written about the end of the recession. So far, the only consensus is that the timing is uncertain and it will be a rocky road to recovery given the formidable headwinds facing our economy. Nevertheless, we have seen a significant market recovery, with the S&P up nearly 46% since the bottom in March of 2009. Investors have continued to put money back to work, but an unprecedented amount of investable capital remains on the sidelines. According to Bloomberg, the average hedge fund was over 50% in cash in early March and the average mutual fund was at 9% cash. Looking ahead, analysts are calling for continued equity market volatility due to a sustained period of financial deleveraging.

### **Altered Signposts**

The investor landscape has continued to change as non-traditional investors – hedge funds, venture capital, sovereign wealth funds, and special situation funds – are wielding more influence than long-term buy and hold institutions. The closure of the large investment banks including Bear Stearns, Lehman Brothers, and Merrill Lynch, all of which provided research to thousands of companies, has resulted in an epidemic of dropped coverage. Analysts are flocking to stocks with trading catalysts and many who used to cover small cap equities are looking at larger companies where trading volume justifies coverage. According to FactSet Research Systems Inc., between September and mid May of 2009, there were more than 2,200 cases of analysts formally dropping coverage of a company, representing about 25% of research reports during the period.

### **Navigating the Terrain**

Despite volatile market conditions, attractive companies are once again accessing new equity capital. A flood of equity offerings came to market in the second quarter as companies ranging from financial services to energy producers capitalized on the rally. The IPO market also showed signs of life in the second quarter, particularly for profitable companies with sustained growth prospects. Some capital markets experts are anticipating an IPO rebound in the fall. The inevitable consolidation and restructuring of certain industries, whether by choice or through external intervention, is placing the spotlight on M&A activity.

Regardless of how the recovery unfolds, what's clear is that most industries have been fundamentally altered by the discontinuity caused by the recession. Some companies were able to take market share or capitalize on cheaper and more readily available assets and talent during the downturn, while others were not. As a result, we're beginning to see a new set of winners and losers emerge and it's not uncommon to see highly divergent valuations among companies in the same sector.

### **Staring at Potholes**

Over the past year and quite appropriately, risk mitigation and balance sheet issues have ranked high on the investor interest index. In response, company communications have been focused on strategies for surviving the downturn and cost cutting initiatives to drive operating leverage when top line growth resumes. Many important and compelling investment stories have been lost in deep discussions of risk mitigation and debt coverage, and IR best practices have fallen to the bottom of the "to do" list for most companies.

## **Laying New Pavement**

While the timing and magnitude of a recovery remain uncertain, we believe that many companies would benefit from taking a fresh look at their IR programs beginning with their corporate positioning and investment thesis – the reasons to buy the stock. It's time to evaluate whether or not your current story explains how the company will be positioned coming out of the recession and 2-3 years down the road, and whether your IR program is up to speed. This story is important for investors but it's also important for employees, partners and customers.

We would suggest beginning the process with some competitor analysis to answer the following questions:

- What are your company's points of differentiation beyond financial health?
- How has the competitive landscape changed for your company?
- How will your company fit in the post-recession landscape?
- How is your company going to be better or different than it was going into the recession?
- How has your market opportunity changed?
- What have you done to position your company for the post-recession era?
- What investments are you making in the future?
- What steps have you taken to begin innovating for the future?
- Are there certain aspects of your story that have not been fully told?

In our experience, following periods of significant market, economic or company specific change, an investor perception study can be extremely helpful in generating critical feedback about a company's message platform and IR program.

Financial Profiles has extensive experience conducting perception studies, developing corporate messages and future-proofing IR programs through best practices reviews. We would welcome the opportunity to talk to you about your strategies for communicating with Wall Street. Please call Moira Conlon or Jonathan Destler at 310-277-4711 for more information.

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