KĒI CONCEPTS

VOLUME 2 – NO. I

In Building **Premium** Shareholder Value

MAKING INVESTOR RELATIONS A STRATEGIC WEAPON

BEING A CEO IN TODAY'S WORLD: *Do you feel the heat?*

Measuring, Monitoring and Managing Your Credibility in the Capital Marketplace

The challenges of being a CEO for a public company today are unlike anything we have seen before. Turnover in this top-ranked position is continually increasing, and the length of one's tenure may be directly linked to the degree of any "disappointment" perceived by investors, analysts, individual shareholders and Directors.

If the market is truly evaluating value for the long term, then why is there so much emphasis on quarterly earnings results? The competition in the capital markets has greatly intensified the pressure for a CEO to produce gains today, or face the possibility of impatient investors jumping ship to alternative investments. The expectations of Wall Street analysts, shareholder activists, pension funds, and board members are higher because more is at stake. This translates into an expectation for performance in a shorter period of time than may have been expected ten or twenty years ago.

In fact, according to a study by Burson-Marsteller, a CEO today has only five earnings quarters on average to prove himself. The study found that on average new CEOs are given eight months to develop a strategic vision, 19 months to increase share price and 21 months to turn a company around. The top two reasons for CEO failure are a lack of strategic vision and an inability to execute well. Or, in many cases, the perception of these failings.

The CEO's Credibility Coefficient is a critical intangible asset that drives the value of a company.

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Inside This Issue

BEING A CEO IN TODAY'S WORLD

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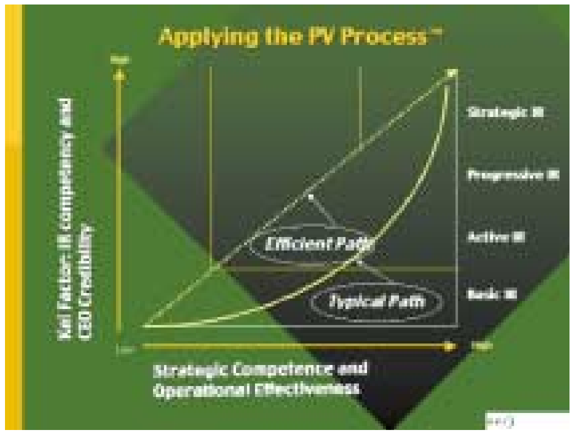
How a CEO is perceived and what degree of credibility he is given have a significant impact on investors' perceptions and choices. A CEO with a strong Credibility Coefficient is going to garner greater patience from his investors during bad trends and cycles than one with a weaker coefficient. It is important to understand the degree of credibility that you have established in the marketplace and to continue to build upon it.

Credibility is built over time. By understanding the market's current perceptions and expectations it is possible to concentrate on the development of credibility and thereby drive value enhancement.

Credibility is tenuous. It is very difficult to build, but can be destroyed instantaneously. Enron traded at extreme premiums based on the credibility of the management team, its strategic vision and its successful execution of its operations. Even failures were shrugged off given the high level of confidence the company had elicited from Wall Street based on management's Credibility Coefficient. Only as their credibility began to erode and finally dissipate did the value come tumbling down. Enron had failed to clearly disclose the change in its risk profile with its off-balance sheet operations. There were questionable arrangements that included the members of the strongly trusted management team. Credibility and value vanished instantaneously.



Kei Advisors Pinnacle Value™ (PV) Process

Is credibility measurable? How do you efficiently improve upon it?

Kei Advisors has developed a process for measuring and monitoring the CEO Credibility Coefficient, which includes the measure of confidence afforded to the CEO's management team by the financial community. Through select interview and survey steps and calibrations, we can help you to understand the expectations of the marketplace — all expectations, not just the bottom line performance indicator. And, yes, it is about understanding expectations.

CEO credibility is continually enhanced by helping the market to envision the same future of your company that you do and having that vision materialize. The market needs to understand the same risks that you perceive, and recognize the macroeconomic factors that impact your performance. It will learn the indicators you use to recognize trend development, and appreciate your decision-making processes for addressing change. By having a clear understanding of your strategic vision and the strategic filters that you use to avoid distractions, it can better anticipate your future cash flow stream. This forward-looking capacity reduces your risk premium and creates a higher value relative to your peers.

Of course, this isn't a perfect world. How far forward do you dare to "help the market see?" How transparent should your financial performance be? How frequently should you be communicating to the market? When should new information be disclosed? How do you accommodate for your assumptions of macroeconomic conditions? Is every statement, presentation, press release and conversation crucial to credibility enhancement? How much time do you have to deliver the expected performance? Because managing your credibility is an ongoing process, monitoring it should be as well. This is why many companies get help. If you don't understand your current level of

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OFF THE BEATEN PATH — Establishing Credibility in All the Right Places

An Interview with Kenneth M. Bell, CFA
Hartford Investment Management Company

In each issue of Kei Concepts, we include an interview with a financial market professional to help you to understand what they are looking for when they evaluate your company as an investment option.

Kenneth M. Bell, CFA, manages the mid-cap growth equity portfolio for Hartford Investment Management Company (HIMCO). HIMCO has approximately $75 billion under management. Ken's mid-cap fund includes companies in all sectors with market capitalization primarily in the $1billion to $10 billion range. Ken earned his B.S. in finance from the University of Connecticut and his MBA from the University of Chicago. He has over 10 years of experience in financial analysis and portfolio management. Here he provides us his perspective on what he looks for in making an investment decision and the critical nature of credibility in making that choice.

D. K. Pawlowski: Ken, what are your earnings growth expectations for companies in which you invest?

K. M. Bell: I don't employ any type of earnings or revenue growth threshold when looking for investments. Growth has to be considered in concert with valuation. I will not buy growth for growth's sake. Having said that, most of my attention is focused on companies I believe capable of double-digit earnings growth over at least the next few years. Moving forward, I believe normalized operating earnings growth of 10% or better will be viewed as very solid performance.

DKP: So, expectations of growth don't necessarily require the 20+% levels?

KMB: Absolutely not. When you look at historical GDP and corporate profit growth you quickly realize that 10% annual growth for a company is more than respectable. Investors were spoiled during the late 1990s, however, and came to expect 20%+ growth indefinitely. It was an unrealistic expectation. Managements can end up hurting their companies and shareholders if they become obsessed with a 20%-type number. They may end up taking on too much leverage, making bad investments or neglecting their core business. Also, I do need to stress that the underlying fundamentals and growth of a company are only half of the equation from an investment perspective. Even a shrinking company can be attractive at the right price.

DKP: How do you find your investment opportunities — or how do they find you?

KMB: There is no source that I exclude. I'll often screen stocks based on a number of variables such as earnings and cash flow growth, return on equity and capital, and various valuation parameters. Decisions aren't made solely on the results of such screens. Rather, they point to companies on which I need to do more analysis. In addition, I read everything I can get my hands on, from papers to industry journals to books. I also share ideas with my peers and attend conferences hosted by the brokerage houses, but I infrequently use sell-side analysts as a source of new investment ideas. They can be a good source for factual data, but when it comes to picking stocks, they're best used in a contrarian fashion.

DKP: Do you meet or talk with every company you invest in?

KMB: No, but I won't hesitate to pick up the phone if I need some answers from management. In addition, I try to schedule one-on-one meetings with firms at conferences, but most of the time I get enough information from conference calls, conferences, SEC filings and industry contacts to make an informed decision. Company websites can be a good source of information. Websites that provide the company's background, its strategy, a description of its products

> *'Even a shrinking company can be attractive at the right price.'*

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'I want to understand the true economics of the business.'

and services, archived conference calls and their IR presentations are very useful for the preliminary investigation. When all is said and done, a management team's actions are far more meaningful than their words. Having said that, I'd love to meet with more management teams here in our offices, but Hartford, CT is off the beaten path, so we don't often have companies coming through the area to introduce themselves. I am constantly searching for compelling investment stories, and welcome the opportunity to have one walk in through my door!

DKP: What about the annual report – is that a useful tool for you? Do you find it easy to access on the web?

KMB: For the most part, I find myself extremely disappointed in how companies use the annual report. I think it's a wonderful mechanism for companies to communicate with the investment world. Unfortunately it has become more of a marketing tool than an investment tool.

DKP: The target audience of the annual report is investors and potential investors, but too often the risks and unknowns are glossed over if addressed at all. What are your thoughts?

KMB: I have a ton of respect for a management team that tells it like it is. If your company is struggling then come right out in the annual report and say 'business is tough right now, we've made some mistakes, here are the issues and here's our game plan.'

DKP: Let's move from forms of communication to content. What is your sense of the quality of earnings being reported?

KMB: First of all, quality of earnings is, and has always been, a critical issue. The issue is garnering more attention as of late due to the Enron debacle, but it has always been there. One of the latest wrinkles is pro forma earnings, which is basically the earnings a company would report if it didn't have to count the "bad stuff." Another hot button of mine is recurring vs. nonrecurring items. One-time charges, by their very definition, shouldn't be recurring. They shouldn't be repeated in the next quarter or year. Pension fund accounting and its financial impact will likely be the next hot issue in the market. Fortunately, although companies themselves may want to bias their reported numbers, the relevant numbers can typically be uncovered in the details of the earnings releases and SEC filings.

DKP: How can managements better address your information needs?

KMB: I want to understand the true economics of the business. Often, the way information is reported only makes it more difficult to uncover the truth. *Management shouldn't waste their time trying to appease the investment community quarter after quarter.* I want managements oriented toward running their businesses to create value, and candidly communicating their efforts and activities so the market can fairly value the stock.

DKP: Our process, the *Pinnacle Value Process* (the PV Process), evaluates the perceptions of the market versus management, and compares that with the strategy and performance of the company versus its peers to determine if there is an information value gap. It then helps to determine to what degree the gap can be closed, and what effort and information is required to do it in the most expeditious manner. It orients management more toward the content that is needed by the financial community to improve understanding while using the best media to reach the proper investment audience. The process also addresses *CEO Credibility*, which we believe is a crucial component to valuation. What are your thoughts on credibility?

KMB: I would like to see more candidness and forthrightness from management teams. The presence of both leads to credibility. Every executive can share the positives with you. Unfortunately, it's the unique individual who is able to candidly communicate the problems. Jim Day, the CEO of Noble Drilling (NYSE: NE) is an example of an executive who speaks candidly and has a tremendous amount of respect within the investment community. When times

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What's Your Pinnacle Value™ Quotient?

1. Do you have defined, measurable goals for your IR activities?
   - ❏ Yes (score 10) ❏ No (score 1)
2. Do you have a clearly stated, written corporate strategy statement that all corporate spokespersons can consistently communicate?
   - ❏ Yes (score 10 ❏ Usually consistent (score 5)
   - ❏ Occasionally sound similar (score 1)
3. Do you test the market for its understanding of your strategy?
   - ❏ Yes (score 10) ❏ Informally (score 5)
   - ❏ No (score 1)
4. As you approach quarterly disclosures, do you review your results and near term tactics using your strategy as a filter for decision making?
   - ❏ Formal process (score 10)
   - ❏ Informal conversations (score 5)
   - ❏ Focus on estimates (score 1)
5. Do you obtain feedback on the quality of the information you provide to the markets?
   - ❏ Yes (score 10) ❏ Informally (score 5)
   - ❏ No (score 1)
6. Do you test the understanding by the capital market and your shareholders of your organization's strategy?
   - ❏ Yes (score 10) ❏ Informally (score 5)
   - ❏ No (score 1)
7. How do you think your IR Program compares with that of your peers?
   - ❏ Best in class (score 15)
   - ❏ On par (score 10)
   - ❏ Lagging (score 5)
   - ❏ Minimum effort (score 0)
8. How well do you perform the following tactics: (on a scale of 1 to 5):

5 – Very well/validated regularly 4 – Well/informal feedback
3 – Good/monitor best practices 2 – Inconsistent
1 – Infrequent/Never

❏ Do you regularly present your IR plan and objectives to the Board of Directors?
❏ Do you plan a calendar of IR meetings and 1:1's to a defined and targeted new investment group each year?
❏ Have you undertaken a market perception analysis of your strategy and credibility?
❏ Do you deliberate and document anticipated questions and issues prior to a meeting/teleconference?
❏ Do you discuss governance practices with major shareholders?

TOTAL SCORE = ________

For an analysis of your score call Deborah K. Pawlowski at Kei Advisors, 716-843-3908, fax your results to 716-856-0432, or visit us online at www.keiadvisors.com.

MISSION STATEMENT

KEI Advisors provides CEOs with a unique and sophisticated process, the Pinnacle Value (PV) Process, to create premium shareholder value. We accomplish this by closing the information value gap created by the market's perception of a company's strategy, prospects and capabilities and by enhancing management's relations and credibility with investors, analysts and the Board of Directors.

Our process effectively allocates resources to achieve the intrinsic value inherent in the organization and provides the metrics for evaluating progress and achievement.

We assist in value enhancement first by assessing the market's perception of your company and management. We then employ our unique process to define communications and investor relations strategies, align your communications strategy with your corporate strategy, and develop creative approaches to the capital market. We also help the CEO assist the Directors with their relationships with the financial markets and in fulfilling their responsibilities to investors.

Deborah K. Pawlowski
President and CEO has significant corporate experience in investor relations, communications, marketing and management. Investor relations programs that she has managed have been awarded the prestigious Association for Investment Management and Research Award for Excellence in Corporate Reporting and Investor Relations.

James J. Tanous
Executive Vice President, has over 30 years of experience with a number of publicly traded companies for whom he provides advice on financing, mergers and acquisitions, securities, antitrust and corporate governance matters.

Raymond P. Reichert
Executive Vice President, brings strong experience in the area of federal and state taxes to the team. His experience includes transactional tax planning for large transactions, review and recommendations on corporate structures to reduce tax implications, and negotiations on behalf of corporations with the IRS and state tax departments.

Joseph P. Kubarek
Senior Vice President, provides guidance for companies dealing with public securities offerings, private placements, public and private mergers and acquisitions, venture capital financing, takeover defenses, proxy contests, executive compensation and shareholder matters.

Kayla E. Klos
Vice President, provides in-depth research and analytical skills in evaluating corporate strategic issues and crisis situations including proxy fights.

Vivek Gupta
Research Assistant, applies his skills and studies in accountancy, economics, finance and information systems to research financial performance and market data on client companies, peers, and industries. Vivek applies the financial component of the Kei-Factor™ to determine the magnitude of the gap in market perceptions of value relative to peers and industry groups.

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credibility, all expectations of the market and its perceptions of your management, then you are climbing the long path to value enhancement. You may not have time to reach the pinnacle.

One alternative is to use the innovative methodology developed by Kei Advisors to get a handle on these issues quickly. Employing proprietary techniques, Kei can measure your current level of credibility and determine the degree of effort and activity required to build upon it efficiently. We evaluate your current communication efforts, processes and strategy and analyze the financial community's perceptions. This audit results in a metric that is monitored regularly to ensure that you remain on course to enhance value. <

If you want to know your Credibility Coefficient and want to employ our process to build value, contact Kei Advisors. We'd be happy to discuss with you our process for effectively allocating resources (i.e., your time) to achieve the intrinsic value inherent in your organization and provide the metrics for evaluating progress and achievement.

OFF THE BEATEN PATH

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are good, he cautions about potential problems. When times are bad, he says so, but also points out the potential up-side catalysts. He does both with more concern for the truth than for the short-term impact on his stock.

DKP: How significant is the capability of the management team in your valuation process?

KMB: The impact on the stock price that management can make actually will vary by industry. It's nice to own companies that are so strong that even an incompetent management team couldn't screw things up, but that's rare. I've already mentioned Noble Drilling as having an impressive management team. Another company with strong strategic competence and the ability to execute is Concord EFS, Inc. (NASDAQ: CEFT). One of the best performing stocks in the market over the last ten years or so, they expanded their business model into a high recurring-revenue type business, and transformed a company that basically sold terminals in its early life into a vertically-integrated electronic transaction processor. They've done a great job growing their business organically, and they've made some intelligent acquisitions along the way. You have to attribute a good deal of their success to its management.

> *'I'll move on if there's any doubt of management's credibility.'*

DKP: So quality of management is critical. But clearly you continue to return to the expectation of forthrightness and honesty, making credibility of management a significant component of your investment process.

KMB: Absolutely. Be realistic. Describe the good and the bad. Quantify the risks, clarify the issues, and explain where you're going. Credibility is crucial. I'll move on if there's any doubt of management's credibility. <

Kei Advisors can help you assess your credibility in the marketplace, what can be done to strengthen it, how to maintain it, and how to address the challenges of disclosure and timing while balancing the concerns of overexposure and honesty at critical decision points.

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Pinnacle Value Process · CEO Credibility Management · Position/Approach Development · Operating Under Reg FD Market Perception Assessment · Targeting the Audience for the Investment · Communications Events Management Crisis and Change Management Communications · Capital Market and IR Training · Pre-IPO and Post IPO Support and Counseling · Budget Analysis/Information and Service Source Review · Strategic Communications Coach and Counselor

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