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MAKING INVESTOR RELATIONS  
A STRATEGIC WEAPON

**HOW INVESTOR RELATIONS FIRMS CAN BOOST THE MARKET PROSPECTS OF SMALL COMPANIES**

*Article reprinted from Knowledge@Wharton*

When executives of Astronics Corp., a Buffalo, N.Y. company that provides specialized lighting for civilian and military airplanes, were preparing to spin off a printing and packaging division in early 2003, they almost overlooked a key player — the company’s biggest institutional investor, mutual fund giant Fidelity Investments.

Had Fidelity spurned the spin-off and sold its shares, it could have “devastated” the share price of the tiny company (market capitalization: \$55 million) and its spin-off, says Deborah K. Pawlowski, a veteran investor relations consultant who had just been brought on to help in the process.

Pawlowski says she quickly arranged a meeting with Fidelity’s portfolio managers. It was the first time company executives had ever met the fund’s officials. Among



other things, she also made sure there would be market makers for the stock of the spin-off, MOD-PAC CORP.

As it turned out, Fidelity did not flee and MOD-PAC started life trading above the \$5 a share mark, which ensured that it would be traded on the more widely followed NASDAQ National Market rather than the NASDAQ Small Cap

Market. While Fidelity has since departed from MOD-PAC, the company’s shares now trade above \$15 and Astronics’ share price of over \$7 is near its 52-week high, justifying everyone’s rationale for the split.

Chalk up another success for investor relations, the myriad of outreach activities companies undertake to attract investors.

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## INVESTOR RELATIONS

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It's one of many, especially when it comes to small- and mid-capitalization companies that typically are traded on the NASDAQ and OTC markets, according to Brian J. Bushee, a professor of accounting at Wharton and Gregory S. Miller, a professor of accounting at Harvard Business School. The two researchers recently wrote *Investor Relations, Firm Visibility and Investor Following*, a paper that documents the impact of investor relations activities on the market prospects of small companies.

“We find that these companies have significant increases in their disclosures (of financial and other corporate events), press coverage, trading activity, institutional investor ownership, analyst following and market valuation after hiring the IR firm, both in absolute terms and relative to a control sample matched on exchange, industry, time listed and prior investor following,” the authors write.

Bushee and Miller's conclusions are based on a survey of 184 companies that hired 33 investor relations consulting firms between 1999 and 2004. The study includes detailed interviews with 11 of the IR firms, including Kei Advisors LLC of Buffalo, N.Y., where Pawlowski is chairman and chief executive officer.

Three fourths of the companies are listed on NASDAQ or the OTC Bulletin Board, and they represent 59 industries. Only two of the industries — computer services (8%) and software (6%) — account for more than 5% of the sample.



The impact is not uniform. “NASDAQ companies experience bigger increases in institutional investor and analyst following, whereas companies on the OTC Bulletin Board and Pink Sheets experience greater increases in trading activity and disclosure,” the paper says. Companies traded on NASDAQ generally are larger than those traded over the counter. The IR strategy often unfolds in stages, “with increased visibility and trading by the existing investor base preceding increases in following by institutions and analysts.”

*‘Companies need to be more attentive than ever not only to what they tell investors but how they convey that information.’*

### Getting Analysts' Attention

For small companies, which in the best of times struggle to be visible to potential investors, tighter regulations in the aftermath of corporate scandals have made the IR function even more crucial, the authors note. These companies — most of them unable to afford in-house IR specialists — are therefore turning to investor relations consultants to help them “navigate the more complex communication process” created by reform measures such as Regulation FD, which prohibits selective disclosure of material nonpublic information, and the sweeping Sarbanes-Oxley Act.

Companies need to be more attentive than ever not only to what they tell investors but how they convey that information so they don't fall afoul of the rules. At the same time, “both regulations are viewed as having decreased analysts' interest in following small- and mid-cap firms, making it important to have an effective way to attract that attention,” the researchers' paper notes.

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Analysts at Wall Street brokerage firms who once tracked small companies in hopes of attracting investment banking business cannot do that anymore for fear of raising conflict of interest questions. Companies in turn cannot favor selected analysts in releasing corporate information. The end result is that smaller companies are having a harder time gaining analysts' attention.

All this has heightened the importance of IR professionals to companies that are seeking to be heard by investors over the crowd of other such

companies also clamoring to be heard. "Most academics would say it is pretty

surprising that you can just go out and pay somebody to help you manage your investor relations and produce significant results," Bushee says in an interview. After all, the well-known efficient-market hypothesis suggests that investors and analysts already know everything that needs to be known about companies and "hiring someone to change their minds would not work." But it does, he says.

So what does a good IR firm do? "The first thing is, it works

with the client company to help it refine the story" it wishes to tell analysts and investors, Bushee says. That in part may involve persuading the company management to provide additional or fuller public disclosures of financial and non-financial information, beyond what is required by the Securities and Exchange Commission. For instance, it could provide details of a long-

term agreement with a customer or the start of a new phase of drug trials.

The IR firm also arranges meetings between the company management and large institutional

investors, or the "buy side," as well as analysts at brokerages, or the "sell side." The goal is to make buyers and sellers of the stock comfortable with the company's management, Bushee says. "A lot of these firms are loss-making firms," he adds. "You can't value them on price-earnings models, but instead must rely on whether the management has a good idea, whether it has a good business plan and whether it is doing the right things to get to profitability.



A lot of bets investors are making are on the management, not on the financials."

In this context, reputable IR professionals tend not to accept clients looking only for a short-term boost in stock price, according to the paper. "Almost all of the IR professionals expressed concern that such situations would inadvertently lead to being involved in a 'pump and dump' scheme," the authors note. In pump and dump schemes, unscrupulous companies artificially and temporarily boost their stock price so insiders can take a profit.

"Part of what goes on is that you have one opportunity to do this," Bushee says. "You are hiring an IR firm, and making a commitment to be there to answer questions from investors and analysts. If you disappear when things go bad, you will lose (these investors) and never get a chance to do this again."

### Two Versions of a Press Release

At Kei, clients can expect a strategic rather than tactical approach to the investor relations task, Pawlowski says. "A lot of them see investors in an undifferentiated way. I say there are *individual* investors out there and your task is

*'At Kei, clients can expect a strategic rather than tactical approach to the investor relations task.'*

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to find out what each wants to hear.”

IR is equal parts communication, marketing, finance and law, according to Pawlowski.

“A company is like a living organism. It grows and evolves and goes through cycles, and so its investor profile also changes. Management must help investors understand where the company is headed and what will happen to the future cash flow.”

Her profession has come a long way since the 1980s, Pawlowski adds. IR has evolved to match the growing role of large institutional investors and mutual funds in stock ownership and the demands placed on companies more recently by regulatory changes, she says. The large investors have become increasingly sophisticated and voracious consumers of company data and analysis. That, in turn, has raised issues of selective disclosure and attracted new SEC rules, such as Regulation FD, to level the investment playing field.

Years ago, Pawlowski used to do two versions of a company press release: One was a simple recitation of its sales, net income and earnings per share, aimed at unsophisticated readers of news wire services. The other was aimed at the financial community and went further in parsing the company’s financial statements. “Now, this would be a violation,” she says.

At the same time, the so-called “global settlement” engineered by New York Attorney General Eliot Spitzer has had a hand in tilting the investor relations landscape toward the buy side, says Louis M. Thompson Jr., president and chief executive officer of the National Investor Relations Institute. Under the settlement, Wall Street firms paid \$1.4 billion in penalties after revelations that

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**KEI Advisors** provides CEOs with a unique and sophisticated process, the Pinnacle Value (PV) Process, to create value for our clients. 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.*

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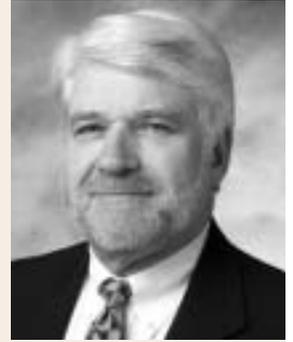
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## Meet Kei's New Team Members

**Joseph P. Pawlowski, CPA, Executive Managing Director**, has over 35 years of experience in accounting, financial management, capital market perception, corporate compliance and strategic planning. At Kei Advisors he is involved in client service support, and stock market and financial analysis. He also supports Kei's business development and marketing.

Before joining Kei Advisors, Mr. Pawlowski was a senior financial manager at National Fuel Gas Company, an integrated energy company with \$3.9 billion in assets. Involved in the company's strategic development, Mr. Pawlowski was the lead contact for institutional investors and analysts. He began his tenure there in 1981 as Treasurer and Principal Accounting Officer, and in 2000 became Principal Financial Officer. He was responsible for the accounting practices and financial management and reporting of one of the largest publicly held natural gas utilities in North America and its operating units.

Prior to his career at National Fuel, Mr. Pawlowski was with PriceWaterhouseCoopers where he was Audit Manager. He holds a BBA from Niagara University and is a Certified Public Accountant.



**Kenneth M. Bell, CFA, Senior Vice President**, assists client companies with the development and implementation of strategic investor relations initiatives. He provides expertise in the area of financial statement analysis, valuation, financial modeling and new client development.

Mr. Bell has over ten years of experience in the investment industry as an equity analyst, trader and portfolio manager for mutual funds, insurance companies and private asset managers. As an analyst, he has researched numerous industries across all capitalizations; as a portfolio manager, he built a top-tier track record as a mid-cap growth manager. More recently, he was the Sector Head of Equities for Hartford Investment Management Company, responsible for \$4 billion in assets and a team of five professionals.

Mr. Bell has a BS from the University of Connecticut, where he graduated first in his class from the School of Business. He also earned an MBA from the University of Chicago and has been awarded the Certified Financial Analyst designation from the CFA Institute.



**Tammy S. Swiatek, Vice President**, implements strategic IR programs and tactical IR activities for Kei client companies. Her focus is on identifying analysts and portfolio managers with the greatest propensity to invest in each client, as well as investor relationship management, and corporate strategic thinking with investor input. She also develops and implements a variety of communication efforts targeted to the investment community, capital markets, client company boards of directors, and employees.

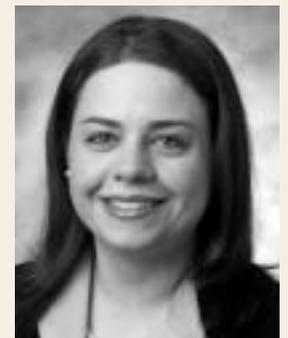
Ms. Swiatek has many years of experience in product marketing management, including positions with both M&T Bank and USAirways Vacations. These classic product management responsibilities included the creation and execution of strategic marketing plans and product development, incorporating pricing strategies, profitability assessment and market share analysis. Ms. Swiatek was also a management consultant for a mid-size accounting firm where she assisted small business owners with strategic

planning, growth management issues and business value improvement.

Ms. Swiatek earned her BS and MBA from the University of Buffalo. She is a graduate of the CPA Fast Track program at Tennessee State University, a program designed to give working adults a comprehensive accounting curriculum.

**Mary B. Olkowski, Research Associate**, is responsible for company research and industry analysis for Kei's clients and prospects. She provides logistical and marketing services support for our client investor communication activities including teleconferences, webcasts, websites, meetings and one-on-ones.

Ms. Olkowski attended the University of Dayton in Ohio, where she obtained her BS in Marketing. She has worked in a variety of administrative and marketing promotion capacities including the coordination of advertising and direct mail campaigns.





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their analysts exaggerated the merits of companies that brought investment-banking business to the firms, and have separated their research and investment banking functions to avoid future charges of conflicts. "If you are a research analyst, you don't talk to an investment banker without a lawyer in the room," Thompson says.

That has meant that smaller, often marginally followed companies have lost analyst coverage altogether. Companies that once could gain the stock market's attention by talking to a handful of analysts must now reach out directly to potential investors, a more time-consuming and expensive task, Thompson says. (Small companies should expect to pay between \$60,000 and \$120,000 a year for the services of a good IR firm, Pawlowski says.)

Thompson cautions,

however, that "the job of IR is not just to boost the stock price, although most CEOs look at their IR person and say, 'I want you to get my stock price up.' But you don't grab that hook. Your job is to get information out about the company in an evenhanded way, good and bad news, and then the market has to decide" how much it values the company.

Bushee cautions that IR is not simply an act of advertising. In hiring an IR firm, a company's management is making some onerous long-term commitments to investors, including providing them with more access to management and more disclosures. "It's not that you can just hire someone to shill your stock and then people will buy it," he says. <

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## Director Education Program *The Practice of Corporate Governance*

Companies and their directors are increasingly concerned about the quality of their governance practices and the influence these practices have on their overall performance. Kei Advisors LLC, and its law firm affiliate, Jaekle Fleischmann & Mugel, LLP have developed *The Practice of Corporate Governance* program to address the subjects that are of greatest concern to directors as they carry out their fiduciary responsibilities. The program sections may be presented independently or as a series based on the priorities of the company and the board.

Each session presents an overview and background of the subject from both a regulatory and business perspective. The sessions identify red flags or alerts that directors should be looking for and provide essential questions boards should ask. Each session includes suggested best practices, with discussion related to benefits and drawbacks, and practical templates.

### *Topics Covered Include:*

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- Creating Excellence in the Board Room
- The Directors' Role in Risk Management
- Director and Executive Compensation
- Improving Governance with Planning & Preparation
- Reporting & Disclosure
- Strategic Planning
- Succession Planning

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