

COMPLIANCE WEEK

'Investor Day' Revolutionizes Fair Disclosure

By Louis M. Thompson, Jr., *Compliance Week Columnist* — April 17, 2007

Public companies are increasingly turning to an “Investor Day” as a way to tell a broad audience of analysts and investors what the company is doing and where senior management sees it going.

The concept of bringing the investment community to the company isn't new, but it took on a revised form with the passage of Regulation Fair Disclosure in October 2000. Previously, companies would periodically conduct plant or site tours so analysts and investors could get on the ground and see what a company was producing, and give them an opportunity to talk with employees on the assembly line and those at the middle-management level.

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The wrinkle thrown into the works by Regulation FD was that the Securities and Exchange Commission designated a select group of “named persons” who were subject to the selective disclosure rule. They are officers, directors, and investor relations and corporate communications persons. Beyond that, an assembly line employee or a subordinate-level marketing person (among many others) is not subject to the rule. They could respond to an analyst's question in a way that could reveal nonpublic information, which the analyst might consider material in making an investment decision.

If company officials wanted to avoid disclosure of such information, they had to introduce significant controls on employees, which analysts viewed as hurting the value of these face-to-face opportunities.

The SEC did give companies a means for full disclosure under Regulation FD that covered unscripted revelations: the fully accessible Web cast. The Web cast, announced in advance, covers disclosure of material, nonpublic information by all employees, including those officials covered by the rule. So, if an inadvertent or unplanned disclosure of material information were to occur, it is considered fully disclosed at that moment.

The Investor Day concept embraces these regulatory changes if it is Web cast. More importantly, an Investor Day is a way for companies to meet investors efficiently and replaces many of the individual meetings with buy- and sell-side analysts that consume a lot of senior management's time. Companies are still meeting with investors one-on-one, but again, the Investor Day is an opportunity for a company to bring their investors together into a single forum where it can showcase its senior management, discuss its strategy in greater detail, and review major initiatives being undertaken to achieve its strategy. An Investor Day can also be used to announce a new strategy, a new product, or a new direction for the company. Unlike doing this at a major sell-side sponsored conference, the company is in

control of the agenda and the theme.

While the quarterly conference call provides an opportunity to discuss short-term results, the Investor Day provides management the opportunity to discuss its longer-term view of the business—something many in the investment community complain is lacking today. It's also an occasion where you can present a cross-section of senior management that is not possible in a conference call.

An Investor Day can be held in a variety of formats. Generally, they are half-day programs held in the morning or afternoon, or that start in the morning and end by mid-afternoon. A key decision is where to hold the meeting: at the corporate headquarters, at a major corporate production or service facility, or in a major financial center such as New York. It depends on what your goal is for the meeting. It's also a good idea to check with your peer group to make sure you don't conflict with another company's event.

If you are going to hold it at a corporate facility, it should be easy to reach—no more than one connecting flight for most of the attendees. Analysts and investors are required by their firms' rules to pay their way to the destination and return.

Following is a sample format:

1. The Investor Day begins with a breakfast, followed by welcoming and introductory comments by the head of the company's investor relations department. That should be followed by the CEO's overview, which lasts about 30 minutes. This is an opportunity for the CEO to explain the basic message for the day, preferably based on three or four key themes. Some examples:

- We are well positioned and structured for organic growth opportunities.
- We place strong emphasis on program and financial performance.
- We pursue value-creating cash deployment for program growth and enhanced shareholder return.
- We have the right senior management team working together to achieve our strategy.

2. The CEO is followed by 15- to 30-minute presentations by key corporate managers: the CFO, head of human resources, corporate marketing, and heads of the major operating divisions. All of these presentations should reinforce the key themes introduced by the CEO. A question-and-answer period may follow each presenter, or employ a combined Q&A after the whole group.

3. An hour break for lunch is appropriate and may be extended another 20 minutes or so if there are product demonstrations set up in a nearby location. If some presenters could not be accommodated in the morning session, their talks can follow lunch. The CEO should spend the last half hour summarizing the key themes, taking questions, and providing closing remarks. The meeting should conclude by midafternoon.

One cannot overemphasize the importance of preparation for an Investor Day. You may

want to engage an investor relations consulting firm to assist the key presenters in developing their talks, as this can be a time-consuming process. If one or more of the presenters needs a brush-up on presentation skills, this too should be considered. An “outsider” can provide an important perspective not only in the presentation preparation but also during the rehearsals.

As a follow-up to the Investor Day, you should consider providing attendees a survey or hire a third party to call participants and ask their opinions of the day and whether they got what they needed. This feedback will be vital for the investor relations officer and other senior management executives to determine if the intended message was heard, and what needs to be done to make the next Investor Day an even greater success.

An Investor Day is a way for the more transparent companies to demonstrate to the investment community their willingness to share their strategy and the means by which they plan to execute that strategy. It also provides a way to demonstrate the quality of management from the CEO on down, and quality of management is consistently the most important nonfinancial factor cited in multiple surveys of the intangible assets that investors use to make their investment decisions.

With more than half of the average S&P 500 company’s market value attributed to nonfinancial factors, you should consider an Investor Day as an opportunity to demonstrate the company’s financial and intangible assets alike. A greater understanding of those assets can certainly help boost shareholder value—and that, in turn, can certainly help boost your relations with shareholders.

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