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Public Relations Best Practices 2008-2009

Industry Leaders on Understanding Client Needs, Staying on Top of Trends, and Utilizing New PR Approaches

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Cross-Border Companies: A Fast-Increasing Trend in Investor Relations

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Our Firm

Our firm is one of very few investor relations or IR firms that have a specialty in working with "cross-border companies." That is a catchall term that means companies that are headquartered in one country and doing business in another country, or doing business in one country while their stock trades in another country. Some of those are native stock listings that are registered directly with local authorities, and some are depositary receipts. Generally, companies that are called cross-border companies do not rise to the level of what used to be called multi-national companies—many are small-cap companies which, in the U.S. today, usually refers to companies with a market capitalization of up to $2 billion.

In our case, most cross-border companies these days become listed by "reversing" into trading shells, though many also are listed elsewhere and trade in the U.S. as American depositary receipts (ADRs). When a reverse merger takes place, it means that they have acquired the shell of a public company that either has already divested its operations, or is willing to do so. So they may have acquired a former steel fabricator, for instance, and are now going to back into that same shell a medical device company based in, say, Shanghai. The legal maneuver is called a "reverse triangular merger." In the latter case (the ADRs), the shares are deposited from a foreign bank to a U.S. depositary bank (the largest are the Bank of New York Mellon, JP Morgan Chase, Citibank and Deutsche Bank), and then they can be traded as though they were local securities.

Because many cross-border companies have valuable new ideas and new technologies, we have developed an onboard ability to understand fairly high technology. Some cross-border companies may sell food or low-tech items, but many of them fall naturally into the tech sector—commonly they have developed a technology and then want to exploit it in the largest world markets. Over the last thirty years, we have developed the skills to both understand and appreciate patents and high technology. We have dealt with a very wide variety of technologies, some in the traditional areas of computers and telecommunications/Internet, but many these days in medical applications (lots of lasers), greentech/cleantech, homeland security and transportation security, alternative energy, and biotech.

We often work with businesses that have distinctive intellectual property, and most of our clients are below $2 billion in market capitalization. Generally, our goal is to expand our clients' institutional ownership and to increase the general awareness of their brands, their technologies, and their patents in their industry sector. We became interested in cross-border companies as the stock markets themselves became increasingly internationalized, and the services that surround the stock markets followed suit. So, for instance, the New York Stock Exchange now owns Euronext, a "chain" of European stock exchanges, and the London Stock Exchange owns the Borsa Italiana, and the Dubai Stock Exchange owns the Oslo Stock Exchange. Failed bids for other major exchanges have routinely hit the newspapers for the last five or ten years as well, but it is a commonplace that stock trading is now a twenty-four-hour field of endeavor.

At the same time, major investment banks, accountancies, law firms, management consultancies and personnel agencies have become effectively worldwide presences in order to serve increasingly internationalized clients. There are few countries with significant gross national products that do not have major international investment banks, large international accountancies or big consultancies. Advertising and public relations had long ago become internationalized, and it is a truism that many large US-based advertising firms are owned by a handful of offshore parents who have bought them all up. For some reason that has been less true of investor relations, which remains largely the domain of smaller companies, probably due to the customization required to do a good job. That said, there are an increasing number of companies with international networks, especially in Europe and Asia.

As to account origination, we sometimes win a client who has previously been a client of another agency, but we often start work with a client who has never had an agency before, frequently a company that has just gone public.

Looking at our clients versus the entire IR market, I would say 65 to 70 percent of the clients we win are new to the market and enlarge it, as opposed to leaving it the same size by taking it from competitors. Almost every agency has an expected account horizon in terms of longevity. Ours tend to be quite long, six to seven years, and for the most part our new client additions are companies that are newly founded and funded, or perhaps just newly listed. Most have not had such outside IR assistance in the past.

Almost all of our clients are referred to us by investment banks, fund managers, attorneys, current or former clients, stock analysts or other professionals, so there is no set protocol for obtaining new clients other than to maintain the broadest possible acquaintance among potential referrers. Typically, our clients are already publicly listed when we meet them, although occasionally they are companies whose stocks are going to be traded in the future ("getting ready to go public"). And since the great majority are referred to us directly, we can frequently get a line on good information from the referrer.

Many have websites of some type already up and running, though the websites are frequently not very robust and may be difficult to navigate. With cross-border companies that are headquartered outside the US, unidiomatic or inaccurate English may be a problem, but many have quite a lot of public information available to study before we meet with them. As a result, we usually can get a fairly good background in a company's business before we talk to them

We have grown every year but two since we were founded in 1981. Most commonly that has meant that we have increased the size of the client base—the number of clients going up. Over a period of years, the average revenue from clients has also increased, in many cases because of the types of service we provide. Since we tend to have a long client life span, we also sell into existing clients with new services. The most common new services would be surveys of a variety of types (we do Internet-based surveys and telephone intercepts), speeches and presentations, Web site revisions, media tours, and investor road shows.

In our business, of the typical methods for measuring success, some can be quantified and some cannot. The most important, of course, is an intangible that might be called client satisfaction. If the client perceives they are getting what they want, then that is the most important thing. That is hard to measure sometimes, especially if the "client" is a group of management people at a company, as opposed to a singular person, such as the CEO or CFO.

We tend to measure ourselves, and to encourage clients to measure us, on things that we can count, such as the amount of trading on the stock market ("stock liquidity"). Most companies will tell you that the more their stock trades, the easier it is for them to raise money. Companies sometimes tend to come to us when they have unsatisfactorily low levels of trading, and we then try to enlarge the market for them.

Generally, the tactics we use will cause their stock liquidity to increase, which means that the amount of trading will go up—primarily because our goal is to introduce them to more and more professional investors with a preference for securities of a specific type. We also look at the quality and frequency of media stories that we are able to place on our clients, the number of participants tuned into their quarterly conference calls, in increase in institutional ownership, and the population of what are called sellside research analysts who cover the company.

Sellside research analysts are those folks who research and write up reports on companies for broker-dealers (such as Merrill Lynch) or research firms (such as Argus Research). They typically are compensated by their firms based on the amount of trading in the stocks they follow, so it is unusual for a sellside research analyst to pick up coverage of a stock that sells very few shares. The amount of work required for the analyst to pick up coverage simply does not, in a case like that, is not justified by the small potential for revenue. More likely, the sellside research analyst—those people who are constantly quoted in the newspapers as experts—will wait to cover companies whose stocks are trading well, and whose stock prices are moving up. Frequently stock prices move up when more people enter the market and there are more bids.

The Clients

Our clients are typically companies that have strong intellectual property (IP), or some kind of proprietary technology or know-how. Our largest single category is medical devices, but we are interested in talking to anybody who has a better idea about a piece of IP. We have a client that makes orthodontic braces that are virtually invisible and attached to the teeth with wires and brackets. As a result, they are aesthetically more appealing and involve a considerably less painful orthodontic experience than traditional childhood braces. We also have clients with a variety of business software, and some who are involved in an area called IPTV; we tend not to work with direct competitors, and our technology clients comprise a very wide spectrum of industries. We may work with someone who has developed radioactive seeds to be inserted into a cancerous prostate gland, and at the same time help broaden the market for a company that designs environmentally progressive cement plants in Russia. We work with numerous alternative energy companies and security companies. Wherever there is a better idea, a better patent—we would like to hear about it.

One of the challenges of having so many international customers is having to deal with many different cultures and customs. We have many language skills here on board, although companies trading in the U.S. almost always have someone proficient in English. Middle Eastern clients may want to be *sharia* (Islamic law) compliant, for example, which might mean they want to avoid paying or charging interest for example, because it is frowned upon. The USA is a melting-pot where many different cultural traditions co-exist side by side. That is not always the case in other countries where a single culture can be very dominant—sometimes because of religion, sometimes because of governmental style or history, sometimes as a result of social customs, or the pace of life. Making a client feel comfortable can be as simple as providing the right types of meals to coordinate with dietary habits or requirements.

On a day-to-day basis, we offer services that are similar to most PR and IR companies: we write and disseminate news, for instance. In our case, it is likely to be news that could affect the trading of the stock, so that would include quarterly earnings, new contracts, someone who has joined the board, or a patent that was issued, among many other topics. We do not handle the press conference at the trade show where a new product is introduced, but we do work with the CFO and the auditor to explain why earnings for the year were above or below what the "Street" expected.

Our principal job is to broaden our clients' institutional ownership, so we do a lot of direct marketing work. We have a large amount of direct contact with institutional investors, and maintain a database of about 22,000 worldwide.

"Institutional investors" are funds run by fund managers, usually with bylaws that tell investors what to expect in the way of investing styles, and sometimes restricting investment to certain types of securities. The include mutual funds, hedge funds, ETFs (exchange-traded funds), retirement funds, charitable trusts, and a variety of other professionally invested pools of money. Many people believe that such investors form a more stable shareholder base than the retail public—which would be the butcher, the baker, and the candlestick-maker. We have direct contact with institutional investors, which results in a lot of direct contact with research analysts, both buyside and sellside. We go to investor conferences all over the world. We are instrumental in getting stories written in newspapers, on Internet blogs, or on TV.

One thing unique to us is that we do many road shows. We take our clients on the road and they spend the day meeting one institution and then another and another. We typically do 250 or so such days per year, across North America, the UK and Europe, with occasional forays to South America, Asia, and the Middle East.

The service we provide, if successful, puts us in the interface between the companies and its investors. This means if we are doing our job right, we are very useful to our clients. In this business, the more you learn about a company, the more useful you become. It is not like other big PR companies, where to keep your clients means coming up with new and cleverer ideas.

In our business, the greater good is simply enlarging the number of people you are talking to on behalf of a client. It is also important to constantly upgrade the audience—looking for interest from larger funds, funds that have low "turnover" rates (who hold their shares longer periods of time), funds that have many similar investments that allow them to understand an entire industry segment. We try to get most of our clients to a place where there are well over 1,000 institutions actively monitoring and buying the stock, or trading it, or whatever. If we do that, then clients tend to like the work and our longevity is favorably impacted.

We typically lose clients when companies are acquired by larger companies—which is rather frequent when companies have "better mousetraps." Sometimes one of our clients acquires another company that already has an agency, and they have to make a decision as to which one to keep. Sometimes they keep us, and sometimes they keep the other one. We are also in jeopardy a company changes its executive structure. When the Board fires the CEO or CFO, they sometimes will change some of their experts and consultants, such as lawyers, accountants, and investor relations people.

Because we work with cross-border companies, we frequently develop very close relationships with clients in other countries. As long as nothing goes dreadfully wrong with those relationships, they tend to stay because the distances are so great, and the level of trust grows constantly. We have man clients in countries where, by the time trading starts on the New York Stock Exchange, they are asleep, and by the time they wake up, we are ready to go home. If they trust us, well enough to represent them in the stock market here and everything goes right and we do our job, that tends to increase longevity.

The Campaigns

We tend to be a rifle-shot business, which is to say that we try to build a relationship for our clients with a relatively small subset of the mass public. We have 22,000 fund managers in our database, a relatively small universe. Even if you increase that by all the reporters, editors and writers we talk to, our audience is still a small group of people, and we have to tailor our appeals very carefully to the client and to the potential investor. If we do 250 days of road show during a year, and each day features one-on-one appointments with six fund managers and a lunch for ten people, that means we will have taken clients to see approximately 3,900 fund managers during the year. Because each meeting is super-important, we have to custom-tailor our efforts very carefully indeed.

When a client company has a crisis, they frequently need to do some rebuilding with their various publics—customers, financial partners, strategic partners, shareholders and potential shareholders. When a crisis occurs, the best response is to come clean very quickly. Once the whole truth is out, repairs can be made and one can start to rebuild. The hard truth is that it is a mistake to try to hide things, because more often than not, everything will come out eventually. Unfortunately, some companies elect to take the most optimistic view of a bad situation. That can mean a constant trickle of bad news instead of one big ugly announcement.

We had a client one time who had a factory that quite literally exploded—or at least part of it did. Several people were hurt and a few were killed. We were able to counsel with the CEO of that company and we made an unvarnished statement immediately, took responsibility for what happened (which, as it turned out, was due to some employees not following procedures with explosive components), and did everything possible to ease the suffering of those affected. The company was so forthcoming in its reaction that they actually gained in employee loyalty, and while they lost points in the stock market for a while, they eventually were stronger than they had been prior. That was because of a valiant CEO who was willing to roll up his sleeves, step up to the microphones, and answer every question directly and forthrightly.

In our practice, the most important client milestones may be events or achievements that full-service PR firms seldom handle: that might include the granting of patents or copyrights, or otherwise developing intellectual property. It might include litigation—either as plaintiff or defendant. IPOs are less common these days, but becoming public by a simple registration or via a reverse merger is proportionately more common. Since fewer investment banks do small IPOs anymore, smaller companies need to have other ways to go public (which is frequently demanded by shareholders). Any transition from private holding to public listing is important.

Merger and acquisition activity can be important, whether our client is being acquired or is acquiring someone else. Most commonly a company expands its product line or its geographic reach by an acquisition, and either of those can have a major effect on the top and bottom lines.

And of course crises come in all types, sizes and designs and have to be dealt with on a one-by-one basis. Scandals are uncommon, but some types of problems can be important points in a client's history, such as a regulatory problem. A medical device company might have a problem with the FDA, in terms of getting something cleared or their manufacturing approved. Any publicly listed company can have problems with the SEC. A merger can be blocked by the FTC.

Generally speaking, most companies would say upgrading their stock listing is an important day. The smallest companies are traded on the pink sheets or the electronic bulletin board, and when you move from there to NASDAQ, that is a big day, psychologically, for companies. It is important for employees and shareholders. The same would be true for the NYSE or the ASE. If you decide you will trade on the London Exchange, you are internationalizing your shareholder base and capital as well. There are all kinds of psychological things that happen that make employees and shareholders feel better or worse.

Probably our single most visible client this year is a company that makes lithium ion batteries for powering hybrid electric vehicles and electric cars. They have become very visible in the media. Generally, people who get good media are involved in something at the top of the editorial agenda.

We have another client who will be installing new scanning equipment in most of the big airports around the U.S. for the TSA, to look inside prosthetic limbs (which have been a relatively common place to hide contraband). Today if you have a false leg and you go into an airport, it has to be inspected manually, requiring that it be taken off. Our client is installing at 150 airports machines you can just walk through, and it can scan your false leg and see if there is something hidden inside it. I expect that will generate some publicity, just because people will be interested in it. Another company started scanning in airports under people's clothes. You could not see who they were, but you could see if there was a gun present, and there was a lot of TV media about it. In that case, it tended to be unfavorable, because the scanned image also created a semblance of a nude figure on the screen, though blurry, so civil libertarians wondered whether it was an unacceptable invasion of privacy.

Creativity is always important in every campaign. There are periodically large trends that sweep across society, frequently the result of very creative ideas. When I was younger, I worked at another firm, where we developed the first frequent flyer program. There had never been anything like it, and it changed the shape of the airline industry, and many other industries, including hospitality. Everyone has a frequent-flyer, or frequent-eater, or frequent-shopper program now, and that is a textbook of something creative that really changes society.

Because our clients are technology-oriented and because they are not huge, they seldom launch a new trend that just sweeps across society. The medical ones occasionally will come out with a new technology that makes it easier to do something. We work with a company that has a way of freezing (and killing) cancer cells, and that tends to have fewer side effects than normal surgery—so it is possible for a man to have a prostate surgery and to avoid what used to be unavoidable side effects of impotency and even urinary incontinence. It is not news that technology moves at a dizzying pace, and it is not at all uncommon to introduce the latest and greatest of something while secretly scheduling the next generation to be introduced a few months later.

The emergence of online media has changed the entire shape and availability of information in the investment community. It used to be if you were an investor, you got the majority of your information by calling your broker and through the mail. Now everyone who invests in the market gets their information on the Internet. The most commonly contacted place is Yahoo Finance, but there are all kinds of blogs for anybody of any preference in our business. If you like to find undervalued companies, there are blogs for that. There are hundreds and maybe thousands of Internet sources, so where ten years ago the Internet was an inconsequential supplier of information, it is now far and away the #1 supplier. Of course for us that means we have to be extremely vigilant in watching blogs and Internet sites to make sure that the available information that is also accurate.

However, new media is not always the first choice for every PR use. There are times when you need to go directly to the public at large, and the Internet can seem too targeted to access huge segments of the public at the same time. If you were introducing a new car that got one hundred miles per gallon, you would still do that via traditional media: newspapers, television, radio, magazines—because you would need to reach the largest possible number of people in the shortest possible time. In a case like that you need to be on the morning shows on TV, on the evening news on TV, in the *New York Times*, and as many metro dailies as you can name.

In our business, the biggest trends in the past twelve months have been the ones that affect everyone: financial turmoil because of energy prices and housing market woes. That has stretched out through the financial markets, making interest rates go up, and money more difficult to raise. It has created preferences in the market for certain kinds of investments. The price of energy and the growing awareness of greenhouse gases have created a huge preference for alternative energy companies. A completely separate trend, perhaps due mostly to the difficulty of accessing capital through IPOs, is for reverse mergers. This happens when companies reverse into a public trading shell to become public, versus doing an IPO. Going forward, there will be new trends that have to do with the election, the candidates—perhaps medical and healthcare policy-related, or war-related, or immigration-policy-related.

The only significant change I have seen in campaigns over the past year is more internationalization than in the past. Our road shows are much more inclined to spend a week in Europe before they spend two weeks in the U.S., or even a week in South America and sometimes in Asia. The same is true of media, so with our green tech/clean tech clients, we are sometimes as conscious of the German and European media as we are of the U.S. media. This all harks back to what I said earlier about the internationalization of markets.

One significant change in terms of gaining mindshare is the marked increase in blogs over a year ago. For us, that is very important. Some blogs have very nearly as many readers as very large-circulation magazines and newspapers. One that I read every day is seekingalpha.com, but there are numerous others, each devoted to a specific preoccupation. I try to monitor gigaom.com, for instance, to keep abreast of certain high-tech trends. Thestreet.com is virtually a blog site, and is one of the most frequently hit financial sites.

I expect that global warming and greenhouse gases are going to become even more important in the coming year. We will start to see trading in carbon that will help to slow down the creation of new carbon in the atmosphere. That will have to be internationalized, because carbon emissions are rampant not just in the U.S., but in Brazil, China and India and fast-emerging economies across Asia and South America. A change in the party that has the White House could mean significant changes as well.

Of course, the government has a lot to say about the social priorities of the day. If the government were to decide to expand medical coverage, that will have ripple effects throughout society, and will change the opinion about medical investments, about insurance companies, and maybe about the viability of hospitals. All sorts of government policies change after elections, no matter which of the candidates wins.

When you are dealing, as we do, with companies that have one foot in the US and another foot in another country—you have to read the papers carefully, monitor the Internet assiduously, and follow trends in currencies, international politics, and scientific discovery. We believe that there are appropriate investors for any good story, any good company, any good management team. Our job is to find them—in whatever geography they happen to be.

As founder, chairman and CEO of Allen & Caron Inc and Allen & Caron Ltd, Joeseph Allen guides the agency's investor relations and media relations activities. He maintains offices in three Allen & Caron locations and works closely with clients across the map. He has been instrumental in developing the New York office, which opened in June 1996; the London office, which opened in September 2002; and the Paris office, which opened in July 2006.

Mr. Allen has been primarily responsible for the agency's successful expansion in working with depositary banks (ADRs and GDRs) and has put in place an active program for taking North American companies to meet institutional investors in the U.K. and E.U. Under his leadership, the agency developed a close relationship with the two largest depositary banks and with Borsa Italiana (the Milan-based Italian stock market).

Mr. Allen maintains a broad acquaintance in the investment community and is primarily responsible for developing the A&C active database that provides detailed information on more than 18,000 portfolio managers and 5,000 sell-side analysts. This information is collected from the media, official sources, and from more than a decade of personal contacts made by the agency itself, which are then recorded in the database *electronically at each contact. In addition, he works actively with the media relations group in the strategic planning of features and media programs.*

As a strategist/planner and communicator, Mr. Allen has consulted with companies on crisis communications of all kinds, corporate positioning and repositioning, financing, and reorganization. He established A&C's "beauty pageant" capability to help clients locate and choose the right investment bank and has led numerous road trips in the U.S. and U.K./Europe for clients and assisted those clients pursuing private placements or PIPEs. During the past twelve months, Allen & Caron has conducted eighty-three weeks of nondeal institutionally oriented road trips in the U.S., Canada, the U.K., and Europe. He developed A&C's warrant conversion program and has recruited numerous directors for client boards.

In 1981, Mr. Allen founded the company in Irvine, California, after spending the previous decade in various areas of media and communications. Initially, he was involved in the publishing industry with scholarly and educational book publishers; he then moved on to serve in the cutting-edge public affairs department at Atlantic Richfield Company in the mid-1970s (ARCO was later acquired by BP). When he left Atlantic Richfield, he became vice president and general manager of the southern California region of Bozell & Jacobs Public Relations.

Mr. Allen has served on the boards of several small companies. He is the author of several books, including a college text on system life cycles and books on business communications and continuing education. He has also written on a variety of topics for numerous leading magazines and newspapers and has been active in several charities.

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