

In Strategic Investor Relations

MAKING INVESTOR RELATIONS A STRATEGIC WEAPON

SITUATION: UNCERTAIN

When Communication Leadership is Critical

With the economy in recession and the nation in crisis, uncertainty in the capital markets is high and at the same time visibility for individual companies is miserably low. In this kind of unfamiliar environment, one possibility is to throw up one's hands and ignore the demands of the market for information because the future is too uncertain. Yet, we believe, the best approach is to provide more information to investment analysts, not less, even if your view of the future is incomplete.

Without argument, we are in a



critically challenging environment for executive management. During a contracting economic environment, decisions will be evaluated more severely than in the rapid growth situation of the not-so-recent past. Changing outside forces create unpredictable and multi-dimensional impacts to

expected outcomes, causing the foreseeable future to become dimmer as visibility is restricted. This uncertainty is reflected in the fact that based on recent reports, more than 2.5 times as many companies are referencing a lack of "visibility" in their earnings outlook

this year compared with last.

Can you provide more certain outlook for the markets, continue to differentiate your organization

and clearly portray your strategic direction in this extremely complex environment?

Strategy Continues to Determine the Course

As companies address the changes in the environment and their respective markets, many are using the opportunity for strategic plan audits. Many companies have directed efforts toward the following:

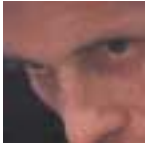
- Re-evaluating strategy and determining necessary tactical adjustments.
- Revisiting goals and objectives: What is achievable in

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this environment? How does the competition for market share change as the market contracts? Is market preservation a priority with greater concentration on preserving margins?

–Refining forecasting and redefining metrics. Many leading companies are now considering providing the market with information it can use that goes beyond standard financial statements and required SEC disclosure.

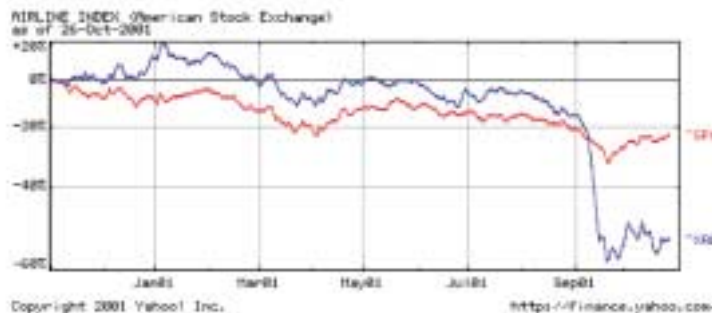
They are tending to broaden their metrics for gauging progress by incorporating in their disclosure

many of their internal measures such as economic profit and market share. These are excellent metrics to portray your current situation and the logic that supports your outlook.

The market will value what it can consider – reduced uncertainty is directly reflected in a lower risk premium. Because short-term results are used to gauge progress towards the long-term picture, when the short-term is fuzzy, risk becomes more apparent. Therefore, the more realistic and comprehensive the long-term vision, the more a company's stock can command a higher value relative to its competition and peers.

Keep in mind, even uncertainty

in the markets is relative. As you can see, comparing the S&P500 to the AMEX Airline Index after the events of September 11, the difference in performance is the market's acknowledgment of *relative certainty* in a time of significant uncertainty. Where demand for air travel was clearly expected to fall, likewise so did value.



Timing is everything...

In many instances, a valuation downturn is due to an expectation variance between the market and management, or the market and reality, which is generated not from the inability to achieve an expected outcome per se, but in missing the timeframe in which the outcome was expected.

In this current situation of uncertainty, the market anticipates both a broader target and a longer timeframe to achieve results. By definition, if your vision is less precise, both the expected outcome and its expected timeframe will be within a wider range. Almost 15% of

the companies traded on the major exchanges have referred to “visibility,” or the lack thereof, in their earnings projections. It is the lack of visibility that leads to a change in the risk premium and a concurrent change in value. Where there is less likelihood of impact, such as in defensive stocks, the lack of visibility is more temporary.

These stocks have fared well in recent weeks.

As to when and how the outlook can improve: for most companies there will be a trend change, as opposed to a step change, return to “normal” or a state where there is

greater visibility, and growth can be anticipated. As the cloud cover rises, evaluate your internal forecasts from this perspective. They should reflect gradual improvements as opposed to a sudden up-turn, unless your industry has significant data supporting rapid cycle changes.

The top 3 things to do to maintain credibility.

Since you as the CEO are the source for the outlook, vision and expected results of your organization, and that information contains a greater degree of uncertainty in these challenging times, the importance of your CEO credibility is at an

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Christopher Carosa,
CFTA, President



Brad McAdam,
CFA, Research Director

Financial advisors Christopher Carosa and Brad McAdam of Carosa, Stanton & DePaolo offer insights into how to use communication with the market to achieve Premium Value.

WHAT ARE THE MAGIC WORDS?

Or what motivates an investor to buy?

Wouldn't it be great to have the magic words to motivate every analyst, fund manager and broker to buy into your stock? Of course, there is no single "magic" word, but there is a formula, a set of communications principles, that will give your story a much better chance to be heard above the crowd. Here's one firm's take on that formula—what they need to hear to consider investing in your company. *Christopher Carosa, CFTA, President, and Brad McAdam, CFA, Research Director, both of Carosa, Stanton & DePaolo have over 40 years combined experience in researching investment opportunities and querying managements in the process. Designated a Certified Trust and Financial Advisor by the Institute of Certified Bankers, Chris earned a BS in physics and astronomy from Yale University and an MBA in finance and marketing from the Simon School of Business at the University of Rochester. Brad McAdam, a Chartered Financial Analyst, earned his BA degree in economics from Cornell University and his MBA in Public Accounting and Management Systems from Cornell's Johnson Graduate School of Management.*

Here they offer their insights into the "magic words":

As we evaluate investment opportunities and continually consider our current holdings, we have had investment choices directly impacted by a company's communication capability. BUT, the impact of investor relations on value and investment choices is more complex than a set of magic words, and we should qualify that *every* analyst, fund manager and broker is NOT whom you should be addressing.

Start by targeting the right investors.

Know what we, as the investment advisors, are interested in, and know what kind of investment your stock is. There is a degree of magic that can occur just by having the right investment made better known to the right investor. This of course means you have to understand how your future potential is perceived. There are several valuation categories, and your stock may not just be pigeonholed into any single category. For example, your stock may fit well into a "growth at a reasonable price category," while another portfolio would consider your stock a "value" buy.

Then talk to us about the right topics.

Strategy: We don't assume that you have one. We expect you to explain it to us and to be able to articulate it clearly and to prove its viability. You can only prove its worth through performance. Be specific about the markets in which you compete, your competitive advantage, what is sustainable and what needs to be continuously renewed. Define the driving force behind your organization and the key resources required for success.

Quality and capability of the management team: This is among the many critical aspects of our analysis. Yes, performance itself is proof of capability, but that is only related to the past situations the company has found itself in. What does the future hold? Your decisiveness, energy, commitment, flexibility, and wisdom come through in your conversations with us. Have you surrounded yourself with a qualified team to handle the details and provide you with good information and guidance? It helps if we get the opportunity to hear from them as well. Do you have a Board of Directors that contributes to the strategy and game plan? Your governance practices and policies can differentiate your organization. Are you compensated on results so that you feel the joys and pains your shareholders experience?

We want to understand the logic

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‘ we expect you to be honest, open, confident and capable ’

behind the numbers:
Help us to understand your balance sheet, its ideal

structure for your organization, where you are and where you would like to get to. Explain your cost of capital, in what you would invest, and how you contemplate financing and your financial flexibility. Tell us how you generate margins and what drives your top line. Use the metrics you use internally to explain your direction and progress. Have defined supportable objectives for market share and market growth. Know your strengths *and weaknesses*.

Be transparent, consistent and complete.

We want to have complete information. Provide a complete income statement and balance sheet when you release earnings – not abbreviated versions. For us, it isn’t an earnings game oriented toward the bottom line – it’s about how you got there. That is what helps us to see where you go from here! Something that can really put a company ahead of its peers is to provide a cash flow statement with its earnings release.

We expect you to be honest, open, confident and capable. Confidence comes across well with results that match the expectations that you have created in the marketplace. This is where CEO credibility is a value enhancer or detractor. Do what you say you are going to do and have the outcome be what you said it

would be. Provide the degree of predictability you can, supported by the visibility that you have into your markets. Make it clear to us how comfortable you are with your outlook.

It’s about the shareholder...

We look for managements who are shareholder friendly. This is reflected in your compensation program, in share repurchase programs when appropriate, in responsiveness and open communications.

Importantly, CEOs and CFOs should understand that there is a very bright WARNING LIGHT for most analysts and portfolio managers: an unrealistically optimistic outlook is heavily discounted and destroys credibility, particularly when reality does not meet with expectations. While at the other end of the scale, we generally ignore companies that only provide SEC boilerplate. There are plenty of investment options in the market. If inadequate information is provided, we move on to the next investment opportunity.

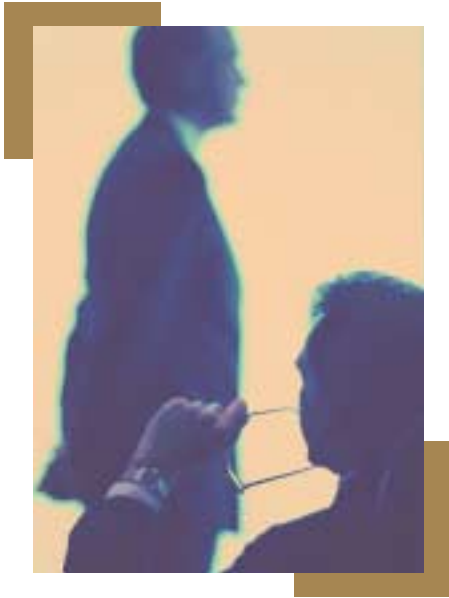
The market is complex and often confusing, but in our experience the information needs of the investment community are consistent with what Chris and Brad have discussed here. They want complete information, continuous communication, and forthright disclosure. Although not magic, the applied disciplines of finance, communications and



marketing combine to offer a value-enhancing proposition. A strong, strategic investor relations program will help you define the potential investors with whom you should be communicating, manage the expectations of the market and provide you with a stronger understanding of the market’s perceptions. How effective is your strategic investor relations program? In future issues, we’ll provide means for measuring your IR effectiveness. <

Carosa, Stanton & DePaolo, an asset management firm located in western New York, seeks to empower its clients to prosper by avoiding what they call “The Seven Deadly Sins of Professional Money Managers.” To accomplish this, they employ an equity-oriented investment strategy based on a mix of the very familiar philosophies of Ben Graham (fundamental value analysis) and Philip Fisher (fundamental growth analysis). They invest in exchange listed and over-the-counter securities and companies with a history of strong financials.

For more ideas on strengthening your investor relations program or assistance with analyzing and understanding current market perceptions, contact Deborah K. Pawlowski, Kei Advisors LLC at 716.843.3908 or email your request to dpawlowski@keiadvisors.com.



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all-time high. How do you ensure that you not only maintain CEO credibility, but also continue to *enhance* it, when data gathering is a challenge and your time is absorbed with addressing the issues of a slowed economy? Interestingly, the rules of providing quality Strategic IR do not change in this environment. But their implementation does require more attention and tends to be more difficult.

Here are a few guidelines:

Rule #1- Communicate. Communicate and communicate. Know your investors and continue outreach to a broader, yet carefully targeted, investment audience. *Strategy continues to determine the course.* Articulate clearly your mission, direction, intent and how your approach works in today's environment.

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MISSION STATEMENT

KEI Advisors LLC is a highly focused, exclusive investor relations consulting firm that provides our clients with creative approaches to managing their communications and relationships with the capital markets. We do this by applying the Pyramid of Premium Value™ process and measuring results with the Kēi Factor™.

Our clients and experience have ranged from pre-IPO to micro and large market cap companies in manufacturing, medical technology, real estate, financial services, internet and software technology, utilities and energy.

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 25 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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Rule # 2 - Be Honest: even if it is bad and ugly. You are not expected to know everything, and “I don’t know” is ok for that which is outside of your control. What you are expected to know is how you will respond in various scenarios. Therefore see Rule Number 3.

Rule # 3 - Plan For Contingencies. Know your course of action for all foreseeable alternatives. This is less a test of the answer and more a test of the creativity to be able to divine the multitude of alternatives with which you could be faced. Brainstorm with your team the various situational alternatives and your various potential responses. Which approaches are consistent with your strategy, plans and policies? Demonstrate to investors your

creativity and forethought. Most executives are concerned that in this realm they may divulge competitive information. Yet, there are methods for answering the “what if” questions to provide the information the market needs without providing the competition with your game plan.

If you have prepared for your conversations with investors and analysts, clearly thought through the various situations you could face, anticipated the questions you may be asked, and planned the courses of action your team will take, you can provide the confidence of having a

plan and having considered any posed situation without having to disclose the plan itself.

No one is immune to the macroeconomic factors that impact the economy, and sectors as a whole will be valued on the basis of the likely impact to their

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growth. How you move within these challenging times, and how well the market understands the logic behind your decisions, are what will differentiate you

relative to your peers and provide incremental relative value.

Leadership as always is crucial, but leadership in *communication* will create differential value. <

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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