



CORPORATE PRIORITIES: *Insights from the Rivel Database of Investment Community Opinion*

January, 2008

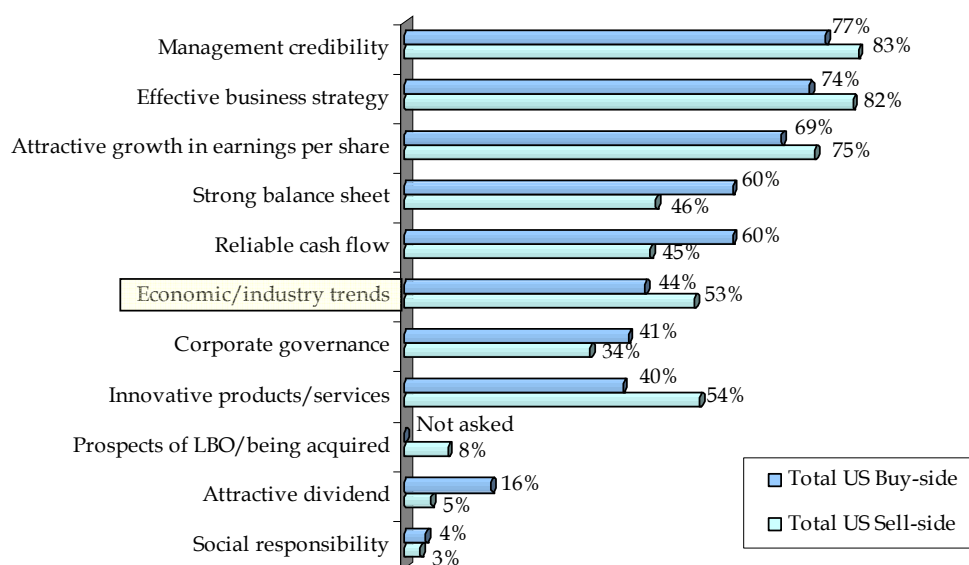
Topic: A Call to Arms for Investor Communications

The dreary story plays across the headlines day after day like storm clouds passing before the sun. Stocks down another 2%. Dow plunges below 13,000 as credit crunch spreads. The Fed mulls another rate cut. The dollar falls in overseas markets. A *Newsweek* cover trumpets, "Road to Recession." The resulting questions are legion. What do such dire news and expectations foreshadow for businesses, common stocks (My stock for Pete's sake!) and their valuations in general? More specifically, what should corporate and investor communicators do? How can such downdrafts be interpreted rationally and, to the extent possible, deflected?

Clearly, the first response is not to overreact. Despite vague and disparate assumptions about the effects of day-traders, hedge funds and "short-termism," the large majority of the professional investment community is far more deliberative and realistic than may be commonly conceived. In our investor studies, most analysts and portfolio managers (even hedge fund managers) consistently insist that they value companies from a methodical long-, as opposed to short-, term standpoint. Indeed, as we have stated repeatedly in recent years, the factors which head the list of drivers most often identified by investment professionals as prompting buy or sell decisions (management credibility and a sound business strategy) resolutely point to such a disciplined orientation. The significance of this overarching interpretive and strategic predisposition is that it now clearly predominates among both the buy- and sell-sides relative to the standard hallmarks of short-term investing (e.g., an all consuming preoccupation with earnings growth or stock price) and will probably continue for the foreseeable future given the still-recent scars borne of the dot-com implosion and vivid and ongoing examples of corporate malfeasance. Moreover, our studies also show that general industry or macroeconomic factors typically do NOT constitute the discriminating force motivating investment decisions. Rather, they usually rank well down the list of important investment drivers when we have asked investment professionals to rate their significance relative to other key considerations.

- The priority of strategy and management issues (especially relative to macro or industry trends) is illustrated by the following chart which summarizes key results among national studies Rivel completed last year among both sell- and buy-side investment professionals.

*Extent to Which Key Evaluative Factors Deemed "Very Important" When Evaluating Investment Appeal of a Common Stock - 2007 (Aided)**



* Multiple responses

From Rivel's 2007 studies "Perspectives on the Buy-Side" and "Perspectives on the Sell-Side."

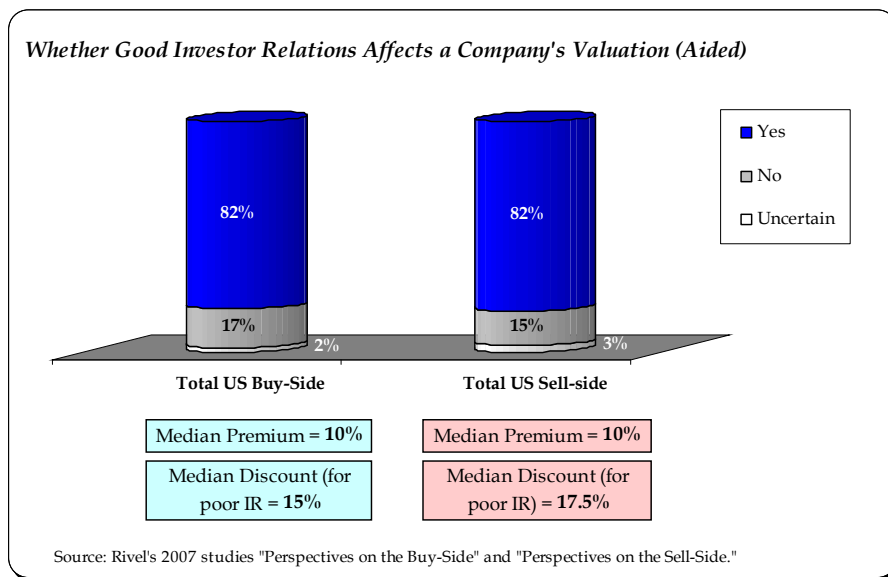
The second response is to soothe management anxieties by broadening awareness internally of the investment community's resilience and willingness to often discount economic woes in favor of underlying organic corporate strengths. Rivel's S&P 500 normative database compiled from hundreds of custom studies we have conducted for public companies over the last five years provides invaluable context to help stitch frayed nerves regarding current market trends. We took a look at all companies we have studied in the past five years that prior to our survey were off at least 20% from the 52-week high in their stock. In essence, they had relatively recently lost a minimum of 20% of their market capitalization. This review yielded a total of 66 such firms. We then compared average scores for these companies to the norms we maintain for all firms in our database on several critical components of investment appeal - namely, a company's overall corporate reputation score, management caliber, soundness of the business strategy, management credibility and effectiveness of the investor communications program. The results are instructive.

At first blush, overall ratings of these stock-price challenged firms are indeed lower than our broad-based norms - across the board on these measures. But, more significantly, the difference is much more modest than dramatic suggesting that the impact of their stock's decline was muted by a fundamental knowledge and appreciation of the company and its innate strengths - a finding which certainly speaks to a longer-term orientation and patience to ride out short-term fluctuations. On average, the typical ratings of the company, its management, credibility, strategy and investor communications had declined by only five to seven percent.

But a reflexive management response to a declining stock price can often include considering the adoption of a more reactive as opposed to proactive posture with the investment community. The general sense can be one of why bother reaching out when there is no good news to relate and an ebb tide is lowering all boats. This, quite obviously, is a slippery slope.

The call to arms urged by this memo is for investor communicators to work hard to guard against this kind of laissez-faire eventuality. To retreat from active engagement with the investment community risks fanning rather than diminishing worries which may, and often are, blown out of proportion in the absence of appropriate guidance. Our studies have starkly shown that the resonance of a company's investment appeal is in large degree dependant upon repeated exposure to the story, growth drivers and management itself. Investors clearly need to understand the underpinnings of a company's success in good times and in bad, the strategies that will be deployed to soften the downward drift and the credibility management brings to bear in reassuring investors that negative trends will in time be neutralized.

The spectrum of proactive relative to reactive investor communications represents a two-edged sword regarding valuation. The vast majority of US investment professionals (82%) admits that investor communications impacts a company's stock price. But our recent work on the buy-side shows that the extent of the influence swings from a premium of 10% to the valuation for "superb" investor relations to a discount of 15% for "poor" investor relations. On the sell-side, the positive to negative spread is a bit wider, ranging from a premium of 10% to a discount of 17.5%.



As we move forward in challenging economic times, corporations will have the choice of deciding where they want to fall on this communications continuum. Can they risk intensifying the natural doubts and pressure on stock price that flow from negative industry and market trends by cutting the resources and commitment devoted to effective investor communications? We think not.