



Getting the Story Right

BY TIMOTHY CROASDAILE

JOHAN R. TRUEBLOOD RECENTLY JOINED MEDICAL SUPPLY DISTRIBUTION CORPORATION (MSDC) AS VICE PRESIDENT OF INVESTOR RELATIONS, IN ANTICIPATION OF AN IPO. He reports to CFO Charles B. Bland. Medical Supply, a chronic earnings-margin underperformer, is about to be spun off from Mega Diversified Medical Corporation. The new public company is projected to produce \$5.6 billion in revenue but has an operating margin that is woefully below peer company indices.

Trueblood joined MSDC two months before the spinoff, during preparations for a roadshow; the lead investment bank, in fact, had already drafted the presentation. In his first review of the presentation, Trueblood sensed that it exaggerated certain “growth factors” and underplayed the operating margin challenges that the soon-to-be-public company faced. The growth factors, Trueblood learned from VP for Corporate Communication Steve B. Right, were real Hail Marys — risky, not proven businesses — with a good chance of failure.

He also was concerned that the roadshow presentation as drafted misrepresented MSDC’s prospects. He asked for meeting with his boss, Bland, to present a case to change the emphasis of the presentation — communicating a cogent management strategy to fix the operating margin problems. Bland rejected

Trueblood’s request out of hand, remarking that “the investment bankers know what will sell on Wall Street” and that the presentation would stay the way it was drafted. Besides, he added, “Why would you want to emphasize negatives that will affect the pricing of the stock?” Bland, by the way, had no prior public company experience.

It was Bland’s “know what will sell on Wall Street” comment that stuck in Trueblood’s craw. It worried him that the investment bankers were creating investor expectations that the company couldn’t meet. It was obvious that they had Bland’s complete confidence, and he, as the new kid on the block, did not.

In his weekly meeting with VP for corporate communication, Right, Trueblood expressed his concern that the roadshow presentation would mislead investors. Right, who reports to MSDC CEO Bob R. Clean, added that he thought the investment bankers’ approach had the potential to demoralize the employee base at MSDC, since it was common knowledge that fixing the earnings margin problems was a life-and-death issue for the company. If management persisted in presenting the investment banker line of thought, their credibility with employees would be nonexistent.

Together, Trueblood and Right concocted a plan: They would pool some resources from their respective budgets to fund a



speedy opinion research study, asking a sample of buy-side portfolio managers and analysts their views on the important issues management should address in the roadshow. The results were predictable: The overwhelming issue reported by the research company was, “How is management planning to improve earnings margins?” Not surprisingly, another key issue from the survey was concern about the quality of management.

Armed with these facts, Trueblood and Right decided to present them individually to their respective bosses. In Trueblood’s presentation to Bland, the CFO chose to focus on the veracity of the study and its sample rather than the results, again asserting that the investment bankers “were on top of what investors wanted to hear.”

Right’s presentation, on the other hand, received a very different reaction. CEO Clean exclaimed, “This is totally counter to what the investment bankers are advising us!” Clean immediately called Bland into his office for his reaction. Upon learning that Bland had received the research results but had taken no action, Clean concluded that his CFO was not the best steward for the company’s IR initiative. On the spot, Clean informed Bland that henceforth Trueblood would report to the CEO and, along with Right, would re-draft the roadshow presentation and create an integrated communication strategy to project management’s strategy to right the course on the company’s operating margins.

The CEO was a big believer in delegation, and the CFO had approached his position as “my domain.” The shock of losing the IR function had a positive impact on Bland at a crucial time, making him more collegial and collaborative.

Epilogue: Management did follow through on presenting the strategy for making the earnings-margin problem the theme of the roadshow. The stock was priced at \$15 per share in the offering. In the subsequent year, the company performed against the margin goals, and by fiscal year-end MSDC’s operating margin was approaching the peer group average. The stock a year later was selling at \$32 per share. IRU

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