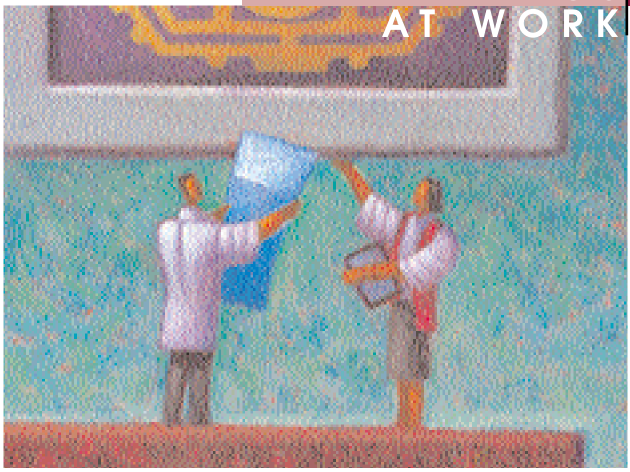

The Analyst & the IRO

By Lynn McHugh

It had not been a particularly good day for Emma Austen, investor relations officer for Gem Germfighters, Inc. After dealing with a perpetually late assistant, she spoke to a vocal shareholder unhappy with Gem's dividend. And the just-issued report on her company by analyst Peter Harvard did not improve her mood.

Harvard was a sell-side analyst with Second Securities, a regional brokerage firm with a strong following in the industry. He had covered Gem for three years and recently reduced his recommendation from a "buy" to a "neutral," based on concerns about the company's new product pipeline as well as recent market share declines. Yes, he was intelligent and direct in a friendly manner, but among Austen's peers in the industry, he was known as someone not particularly concerned with what he considered minor details in his reports.

Despite her best efforts, Harvard's latest report contained the same mistakes she had repeatedly called to his attention. Beyond the numerous errors in the historical numbers, he published market share data on the company's product line that was completely different from what Gem had provided him.

Austen picked up the phone to call the analyst and was fortunate to reach him immediately.

"Peter," she said, "I just saw your new report on us. I know you've heard this from me before, but there are a few things in the document I'd like to call to your attention. I think you would agree that it benefits both of us to ensure that you have your information correct." She proceeded to tactfully review the items she considered erroneous.

"Gosh, Emma, I thought my assistant fixed those numbers in the historical tables," Harvard said. "I'll talk to him again, but don't worry too much about it. Investors shouldn't rely on my report for your prior-year financials, anyway. As for the market share table, I know the numbers don't agree with yours, but my research sources stand by these figures. I don't plan to make any changes there."

Austin had barely hung up the phone when her boss, CFO Charlie O'Brien, called.

"Have you seen this report by Harvard?" he asked. "I'm really fed up with his mistakes!" Like most CFOs, O'Brien was passionate about accuracy, but Austen knew that in this case, he was more perturbed about the previous downgrade in the stock rating.

Austen recounted her conversation with the analyst, which made the CFO even angrier. "This is unacceptable!" O'Brien exclaimed. "And to make things worse, he's using bad share data to support his recommendation on Gem. I want our legal people to tell him to fix his reports or stop covering us!" With that, he hung up.

Austen took a two-minute break to clear her head and then began to reflect on the incident.

The CFO had made his expectations clear, but she disagreed with him. She was very familiar with the guidelines developed by a joint task force of NIRI and the CFA Institute on analyst and corporate issuer interactions — and fully supported them. Austen believed that, if at all possible, maintaining good relationships was critical to the company's reputation with the investment community. Legal confrontation was the last resort in dispute resolution, not a first step.

Austen considered the issues calmly and reasonably. She had to differentiate between factual mistakes and opinions, and then determine the appropriate way to remedy the situation.


Lynn McHugh

Given Harvard's history and attitude, she understood that his errors with the historical numbers might not be corrected anytime soon. She would offer to review his next report prior to publication, and promise to limit her comments to factual errors. If that didn't work, she would have to determine if the problem was sufficiently significant to take to Second Securities' research director, as recommended in the NIRI/CFA guidelines.

On the market share data disagreement, since Gem and this analyst were using different but equally legitimate sources, it would be difficult — if not impossible — to convince him that Gem's numbers were more accurate. This was one of those gray areas where "facts" could be open to differences. It was, however, worth another try. Perhaps she should have Gem's market research director review with Harvard the reasons why her company considered its data to be the better choice. Austen recognized, however, that as an analyst conducting independent research, Harvard had a right — and even an obligation — to employ resources and information beyond those provided by Gem.

And he also was entitled to his opinion on the stock, which Austen knew was based on more than just the market data. Even if she convinced Harvard that Gem's data was more meaningful, he wasn't likely to change his rating.

In her mind, threats were not the answer. After addressing the issue of what were truly errors in the report, there was a better way to deal with the matters that were open to interpretation. First, continue ongoing and constructive dialogue with the analyst to address his concerns about the company. Second, continue to communicate Gem's strategies and strengths effectively and actively to the investment community, incorporating hard facts and anecdotes that make Gem's perspective, rather than Harvard's, the compelling choice for investors.

Convincing her boss, however, was not going to be easy. She would give it her best shot and, if necessary, include her supportive in-house legal counsel in the discussion.

Austen took a deep breath and dialed the CFO's number. "Charlie, let's meet to talk about Second Securities. ..." IRU

Lynn McHugh is vice president, investor relations at Hospira, Inc., and a member of the NIRI Ethics Council. She can be reached at lynn.mchugh@hospira.com.