THE ABERNATHY MACGREGOR GROUP INC.

Investor Relations in a Recession

Recession is imminent. Or maybe it's already here. Or maybe it's a false alarm.

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However gloomy the reality may turn out to be, looming recession is today's conventional wisdom in the investment community.

That conventional wisdom has contributed mightily to the recent declines in all equity market indices. It's contributed, too, to wholesale revision of the priorities by which investors choose which stocks to seek out, and which to shun.

Declining equity markets and uncertain business prospects pose critical communications strategy questions for corporate managements and their boards of directors: What, if anything, should we be doing with our investor relations program? Shouldn't we just hunker down, meet our legal requirements, and wait until the outlook brightens a bit?

We've been hearing these questions a lot over the last couple of months, with a frequency that reminds us of the early 1990s. The markets are different now, and so are the ways in which we communicate, but the answer is pretty much the same: Investor relations is probably more important in times like these than when all the indicator arrows are pointing up. Here are four basic themes for companies that are feeling recessionary pressure on both their businesses and their P/E multiples:

1. Keep talking. Investors value both candor and consistency in the communications of the companies they own or follow. That means straight talk in downturns and upturns alike. Companies that go silent in tough times face three bad raps: They don't know what's going on, they've got something to hide, and/or they think IR is about all opportunistic short-term hype. Companies that keep talking reduce fears of "information risk"; they limit their share price downside (so often fed by fact-free rumors), and they get credit for responding to investor needs. And sometimes there's another upside: Most investors are still investing in equities, and if there aren't enough great stories to go around, a credible so-so story will draw adherents.

2. Be realistic about recession. We heard a CEO not long ago tell shareholders, "We're at the mercy of the economy." His audience was visibly disgusted. Another said, "Recession means we can't use price increases to cover some products' rising costs, so our mix will have to change." He got approving nods. A company that says it's at the mercy of the economy, or anything else, is saying it is passive, vulnerable, and not worth investor attention. Recessions can affect companies in countless ways. Investors will take the most interest in a company that understands how it might be impacted—and more to the point, has made, or is prepared to make, the decisions that grow out of that understanding.

3. Spotlight what's important. Every company has one or two key attributes that make everything else possible: Customer relationships, proprietary technology, foundation products, brand leadership, the list goes on. In a recession, companies adapt by trimming expenses, reducing headcount, deferring capital projects, cancelling risky or long-payout initiatives, reconfiguring the balance sheet. Investors understand that—but they worry that those key resources will be constrained in ways that imperil a return to normal growth and profitability post-recession. Companies should make it a point in investor communications to show that whatever their business cornerstones are, they remain solid no matter what's happening out there.

4. Promote the eventual payoff. For companies with sufficient business stamina, recessions are actually a good time to invest in future growth. The costs inherent in changes, beginnings and expansions fall into periods where everyone's results are under pressure anyway, and the fruits of those labors arrive in periods when substantial gains can be recognized and rewarded by the market. Investors who are able to look past the immediate near term often value companies for their post-recession potential—as long as it's clear that the companies can navigate the recession. So, effective investor communications need also to highlight what's happening now that will pay off when the economy rights itself.

5. Don't forget about activists. Some of their favored stratagems don't work so well now that liquidity is tight and corporate cash has value as downside protection. But they're still out there, and they can still campaign for a sale of the company. We've discussed elsewhere general principles for dealing with activists*. In a recessionary context, we'd put extra emphasis on making sure that mainstream investors understand and endorse a company's strategy for navigating the slowdown. Quite a few buyers still have cash, and a sale can look very enticing if the company seems to be, well, at the mercy of the economy.

**Please email Jim MacGregor at jtm@abmac.com if you would like to discuss this subject or receive a copy of "Dealing with Investor Activism," International Journal of Disclosure and Governance, February 2008.*