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Analyst communication for natural gas utilities

Randolph P. Ryerson
Rowan University

ANALYST COMMUNICATION FOR NATURAL GAS UTILITIES

by

Randolph P. Ryerson

A THESIS

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Professor

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Dedicated to my loving wife Debbie.

ABSTRACT

Ryerson, Randolph P.

A study of the communications techniques used by investor relations professionals at natural gas local distribution companies when communicating with their industry analysts. 1997. Professor Tony Fulginiti. School of Communication.

This study's purpose was to investigate whether investor relations professionals from natural gas local distribution companies effectively communicate with their industry's analysts.

Two surveys were designed to compare and contrast the opinions of analysts and LDC IR pros. Surveys were mailed to 15 leading gas industry analysts and 10 LDC IR pros. Ten analysts and 10 LDC IR pros responded. The major findings include:

Sixty percent of the analysts felt communications with IR pros were only somewhat successful while 70 percent of the LDC IR pros ranked the communication as highly successful.

Fifty percent of the analysts ranked one-on-one meetings with top management as the most effective means for communications. However, only 30 percent of the IR pros ranked one-on-one meetings as most-effective.

Combined, 60 percent of the analysts felt that LDC IR pros need a better understanding of their information needs and time constraints. Fifty percent of the analysts indicated that LDC IR pros need to improve their methods.

Fifty percent of the IR people reported that their chief financial communicator is not trained or coached to communicate effectively. Combined, 50 percent of the IR pros indicated that Corporate Communications does not play a major role in their programs.

MINI-ABSTRACT

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This study's purpose was to investigate whether investor relations professionals from natural gas local distribution companies effectively communicate with their industry's analysts.

Due to the deregulation of the utility industry, effective communication with analysts are increasingly important. Investor relations professionals for gas utility companies should research the communications preferences of analysts to maximize the effectiveness of their communications with analysts.

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CHAPTER 1

Introduction

The 1990s brought a wave of change through deregulation to the natural gas industry. This storm surge of change is challenging once-stable, public utilities, also known as local distribution companies (LDCs), to stay afloat as competition for customers increases.

Under the old system, LDCs enjoyed exclusive service territories, steady earnings and dividends as regulated state monopolies. However, changes to federal regulations have transfigured this long-established system.

> Federal Energy Regulatory Commission Order 636 is the latest in a long series of federal measures intended to foster competition throughout the natural gas industry. Order 636 required interstate pipelines to unbundle (offer separately) their gas sales, transportation and storage services.
>
> This completed the decade-long transformation of the relationship that had existed for many years among gas producers, transporters and distributors. In this relationship, pipelines purchased gas from producers and re-sold it, bundled with transportation and storage services, to the LDCs. Most LDCs in turn enjoyed a largely exclusive franchise to sell gas to virtually all customers within their service area. But, as a result of deregulation, LDCs face new unfamiliar challenges in a highly competitive market.[1]

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[1] Markka Group, Inc. for the American Gas Association, "Order 636 and the Myth of the LDC Monopoly," A Natural Way of Doing Business: Today's Natural Gas Industry: Fueled by Competition 1995: Page2.

Today, the *gloves are off* and LDCs are competing like never before in their history because new regulations allow both residential and commercial customers to buy their natural gas from any LDC. In the near future, this industrywide deregulation will work much the same way as phone companies work--customers have choices.

> A revolution is occurring in the regulation of what were once viewed as natural monopolies. Public utilities used to receive a franchise to be the sole local supplier. In return, they had to provide virtually universal service, at regulated rates, and were guaranteed a normal operating profit. However, a generation of economic analysis has demonstrated that this kind of regulation tolerates inefficiencies, retards innovation, and often promotes investment motivated mainly by the desire to increase the rate base. [2]

With the open competition factor introduced, publicly traded LDCs are not only challenged to retain their customers but also to maintain their share price, dividends and ultimately their shareholder bases by exhibiting to Wall Street analysts that they are a worthwhile investment in this newly competitive environment.

> 1993 was a year of good news for utilities earnings. ... But, analysts say earnings reports aren't everything. Some worry that increased competition may hurt some stock prices. [3]

With attitudes like this from some market analysts, publicly traded LDCs need sound relations with this audience because these analysts make buy, sell or hold recommendations that influence stock valuation.

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[2] Robert Kuttner, "Rewrite the Regulatory Rulebook-Don't Tear It Up," Business Week January 23, 1995: Business Week Online via America Online

[3] Erik Swain, "Utilities Face Increased Competition," Asbury Park Press February 3, 1994, sec. Business: 2.

Need for Study

As the issues previously discussed are emerging, no known body of knowledge focuses solely on communications to analysts dealing with publicly traded natural gas LDCs. The author can say this after conducting exhaustive literature searches of available, published data. The lack of available information on this subject , warrants the study of this topic as it contributes information to the fields of both investor relations and public relations.

The author believes the effect of this lack of information results in deficient communication tactics on the part of the natural gas industry's investor relations professionals. This results in an interested, yet under-informed audience of analysts, whose opinions are vital elements in the value of an organization's stock, which will be illustrated throughout this chapter.

The need for this study is based on three assumptions. The first is that many investor relations professionals in the natural gas industry do not know how to communicate in ways that provide analysts with timely, valuable information about their LDC's financial position. The second assumption is analysts are a key audience to reach as a part of a sound investor relations program. Finally, the third assumption is that LDCs need sound investor relations programs to be viable in their deregulated marketplace.

The need to effectively communicate a company's financial position to analysts is key as illustrated in a 1981 survey of 542 institutional investors. The study's results indicated that "on average, over a third of the institutions' "investment ideas" are taken from analysts' published opinions. Over another third of their investment decisions are based on research performed by in-house analysts or by the portfolio managers themselves.[4]

In an interview, natural gas industry analyst Donald Dufresne, of the Wall Street firm Salomon Brothers, feels that improved communication is needed between LDC investor relations people and analysts. In reference to communication he cites a lack of understanding on the part of investor relations people about analyst's information needs and hectic schedules.

> "I cover about 30 companies, so that's a lot of meetings ... and usually, there is too little news to justify the talk. I'm happy that companies are making the effort to get the word out, but conference calls would probably do as well ... ."
> Next, he'd like to see companies better prepared to answer telephones when big news is erupting or when there is an earnings break. "Much too often we call at such a time, and no one is around to answer questions. There should be someone there to give us straight information. Finally, he thinks IR people should "try harder to understand how we do our jobs and what we need to do them properly. You'd be surprised how many gaps we see in our work-sheets because companies are reluctant to disclose numbers or give us guidance, or they simply do a poor job of dispensing information."[5]

Emphasizing a need for better communications between natural gas industry analysts and LDC investor relations people is an article t by Laura J. Rittenhouse. She surveyed 10 sell-side analysts, two fixed-income analysts, two portfolio managers and two buy-side analysts about their views on the future of LDCs in the competitive market. She found the following:

> A principal finding from the survey is that most analysts see a bleak and paradoxical future for the gas distribution industry. The paradoxes revealed in the survey are: Analysts see increased LDC business risk, but at

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[4] Nathan Weber, "Communicating with Security Analysts - Introduction," The Conference Board Research Bulletin No. 186 (October 1985): 2.

[5] Brooke Stoddard, "Dufresne's Druthers -- Investor Relations," American Gas (Dec. '93 - Jan. '94): 33.

> the same time expect reduced or unchanged total returns. Analysts highly value management creativity and innovation but do not place a high value for risk. Analysts see increased competition but, given the industry's record for diversification, don't think highly of LDC management's' ability to succeed in ventures outside of their traditional core-related businesses. Analysts increasingly consider productivity as a measure of company success, but only few have developed methods and data to track productivity. Analysts believe changes in the electric industry will affect LDCs but none of them selected electric companies as competitors.[6]

Robert Amen, head of the investor relations practice at Ketchum Public Relations has strong feelings about the importance of investor relations professionals understanding the timely information needs of analysts, which supports Dufrenese's earlier comments.

> "The pressure on analysts to perform, to understand information instantly, and to take action, is enormous today, said Robert Amen, head of the investor relations practice at Ketchum Public Relations. ... "The challenge for communications and investor relations people is to make sure the analysts receive the best information on which to make their decisions." [7]

While there is little data focusing on communications with natural gas industry analysts, William F. Mahoney's book, Investor Relations : The Professional's Guide to Financial Marketing and Communications supports this study's assumption that analysts are key audiences in any investor relations program.

In his article, Mahoney stresses the importance of gaining favorable market opinion through the reports and recommendations written by analysts.

> Brokerage coverage is the bedrock of an investor contact program. It sets the stage with institutions and individuals since research is the enticement brokers use in convincing these investor segments to conduct transactions

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[6] Laura J. Rittenhouse, "LDC Gas Analysts Look to the Future," Financial Quarterly Review (Winter 1995): 7.

[7] "Investor Relations in the Instant Information Era," Inside PR June-July 1983: 28-29.

(buy or sell). In this sense, brokerage analysts and their research are part of the investor relations sales team. Indeed, analyst coverage that carries a buy recommendation represents a third-party, objective endorsement of the stock. Quantity and quality make up the coverage equation. The objective is to be widely covered with the contingent including a number of the leading analysts in the industry. This means investor relations people need to do their homework--not just identifying the analysts covering their industry and/or peer group, but also those commanding highest respect from investors.[8]

Eugene Miller, who authored a chapter on investor relations in Lesley's Handbook of Public Relations and Communications, agrees with Mahoney but stresses the need for investor relations people to address analysts with the courtesy often afforded to the media because analysts are deadline-oriented.

> The function of the analyst is almost similar to that of the reporter, except that the analyst must make a value judgment based on the company researched--weighing it in terms of whether it is under- or over-valued in regard to its long-term prospects. Just like the reporter, the analyst is faced with many deadline pressures and must use time to the utmost value. Therefore, the analyst should be afforded the same considerations, in terms of time-saving and assistance, as the financial reporter. More important, the investor relations person should appreciate that the securities analyst probably already has a great deal of information about the company. What is needed, then, is a broad picture of the company's goals and a quick synopsis of current news events. The analyst's interests in the company will be centered more on the future, including the effect of recent events, than on its past.
>
> Generally, the analyst will concentrate on how current news events will affect the company over the long term. Generally speaking, discussions with analysts will be considerably more penetrating than those with the financial reporters. The analyst generally will be searching for answers to the "why" rather than the "what." This is the main reason the investor relations person must have an intimate knowledge of the company.[9]

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[8] William F. Mahoney, Investor Relations The Professional's Guide to Marketing and Communications (New York: New York Institute of Finance, 1991) 23-24.

[9] Miller, Eugene, Lesly's Handbook of Public Relations and Communications Fourth Edition (Chicago: Probus Publishing Company, 1991) 194.

An article titled The Role of IR in a Successful Corporation by James W. Kinnear, former president and CEO of Texaco, Inc. outlines the importance of timely communications, that address analyst information needs while conveying an organization's important financial messages.

> Each analyst has to cover more companies than he or she has in the past. Thus, it is important for investor relations professionals to understand what information the analysts and large investors need. Because they are covering more companies, they need that information more quickly, and it is up to us to provide it to them. So, it's more work for us but it is also a great opportunity. It means that we must make sure that the analysts get the full story that we want to tell them.[10]

Theodore H. Pincus, chairman and managing partner of The Financial Relations Board, which is one of the nation's largest financial relations agencies, cites the modern, rapid-fire information needs of analysts coupled with the importance of plain-language communication.

> Investment professionals will demand a greater degree of instant gratification. The day is almost here when investment professionals will no longer tolerate waiting four or five days for the company mailing list to transmit in the form of a typical three- or four-page news release the full details of quarterly results or an important acquisition. They are quickly becoming accustomed to routine usage of the fax machine by the more-progressive public companies--and far beyond that, the pre-programmed faxing of all releases direct to the desks of interested analysts within minutes after the news is carried by national wire services.
>
> The Street will no longer tolerate mumbo jumbo. Investors will come to accept company communications that speak only in one language--plain English. More and more, even companies with exceedingly complex subject matter--computers, pharmaceuticals, etc.--are de-jargonizing their texts. Further needs are for greater candor in letters to shareholders, interrelating charts and graphs with captions that make a specific point, and transforming a deadly dull Management Discussion & Analysis section into a highly readable, simplified financial presentation.[11]

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[10] James W. Kinnear, "The Role of IR in a Successful Corporation," Directors & Boards Vol. 18 No. 4 (Summer 1994): 30.

[11] Theodore H. Pincus, "16 Top Trends in Investor Relations," Directors & Boards

Problem Statement

The previous literature citations indicate a need for improved communications techniques on the part of investor relations professionals when communicating to analysts. Therefore, this study asks: Are LDC investor relations professionals effectively communicating their companies' financial messages in ways that suit the information needs of their industry's financial analysts?

Delimitations

The groups involved in this study were limited to surveys of LDC investor relations professionals selected from the American Gas Association's 1994-1995 Communications, Consumer and Community Affairs Directory and natural gas industry analysts from Nelson's 1994/95 Investment Research Guide.

This study is limited to the analysis of communications techniques used by LDC investor relations people to advance their companies' financial positions through communications with industry analysts.

Although this author recognizes that many social and institutional factors may affect communication, this study does not attempt to analyze message content, or interference caused by socio-economic factors, psychological profiles, or educational backgrounds of the individuals involved in the communication process. In keeping with this thought, the study will not address issues other than communication technique in either question or procedure.

Vol. 18 No. 4 (Summer 1994): 45-46.

Purpose

The purpose of this study is to provide general guidelines to LDC investor relations professionals, when communicating financial messages to analysts and thereby improving the information flow between these groups.

Improved information exchange between these groups may yield more opportunities for LDC investor relations professionals to advance their issues; increased chances for LDCs to attain favorable position in a competitive marketplace; a clearer understanding of LDC's financial positions by analysts; and a better dialogue between the two groups.

My hypothesis is that because the natural gas industry has only recently been deregulated, that most LDCs have done little to address the needs of their industry's analysts. This is because in the past, the utilities were regulated monopolies with little or no competition from other companies. This situation allowed for steady earnings and stock dividends. Thus, the view of analysts' reports were of lesser urgency than in today's utility environment because LDCs are now challenged to maintain their dividends as earnings diminish because of a segmented market caused by increased competition.

Procedure

The literature review for this study was conducted using manual library searches, on-line Internet database services and library database searches.

A manual search of utility-related literature and publications was conducted at South Jersey Gas Company's corporate headquarters in Folsom, New Jersey. This search yielded seven articles of information. A manual search of the City of Northfield's Public Library, under the indexes of *communication*, *public relations*, *investor relations*, and business yielded no results.

Using the *Data Research Associates (DRA)* on-line catalog at Rowan College of New Jersey's library, I searched books: circulating and reference collections; newspapers: *The New York Times*, *Wall Street Journal*, *Washington Post*, *Christian Science Monitor* and *The Los Angeles Times*; and over 1,200 periodicals including business.

A database search of the books using keyword searches yielded the following results. A search on *investor relations* produced two citations. A search of *investor relations and natural gas* produced no citations. A search on *analyst* yielded no results. A search on *natural gas* yielded 20 citations. Searching on *securities analyst* yielded no citations. Searching LDC produced no results. Searching *local distribution company* produced no results. A search of *deregulation* yielded 31 citations but a search of *deregulation and natural gas* yielded no results. A search using *financial communicattion* yielded no results. A search of *communication* produced 68 citations and a search of *public relations* yielded 522 citations none delt with investor relations. A search on *financial public relations* yielded no results but a search on *public relations and financial* yielded five citations. A search using *public relations and utilities* yielded no citations. A search on *utilities* yielded 122 citations and, a search on *utilities and natural gas* yielded two citations. A search of *natural gas and stocks* yielded no results.

My searches of the newspaper database produced the following results. A search on *investor relations* yielded 2,492 citations but, a search on *investor relations and gas* yielded no citations. A search on *investor relations and utilities* yielded 10 citations. A search of *investor relations and analysts* yielded 10 citations. A search using *communication and analysts* yielded 207 citations. A search using *public relations and analysts* yielded no citations. A search using *LDC* yielded no results. A search of *investor relations and gas* yielded 1,240 citations. A search using *analysts and gas* yielded 25 citations. A search on *financial communications* yielded no results. A search of *utility and investor relations* yielded no results as did a search using *natural gas and public relations*. A search using *natural gas and stocks* yielded seven citations.

My searches under the general periodical database yielded the following results.

A search on *investor relations* yielded 2,367 citations but, a search on *investor relations and natural gas* yielded no citations. A search using *investor relations and gas* yielded eight citations. A search using *natural gas and public relations* yielded six citations. A search using *LDC* produced 206 citations. A search using *investor relations and utilities* yielded six citations. A search using *local distribution company* yielded nine citations. A search on *natural gas and utility* yielded two citations. A search on *natural gas* yielded 7,870. A search on *natural gas utility and analyst* yielded no results. Finally, a search on *natural gas and stocks* yielded 49 citations.

My research also included searches of Rowan College of New Jersey's CD ROM indexes and databases. The first database searched was *Dissertations and Abstracts* published between January 1993-June 1995. My searches under this database were as follows. A keyword search on *investor relations* yielded no results.

A search on *financial relations* yielded five citations. A search on *natural gas* yielded 99 citations but a search of *natural gas and investor relations* yielded no results. A search on *natural gas and deregulation* produced no citations. A search on *LDC* produced 81 citations. A search on the following descriptors yielded no citations: *gas stocks; natural gas stocks; natural gas and stock market; gas analysts; analyst communication; financial communication; financial public relations; utility stock analyst; utility analyst; and stock analyst communication*. A keyword search on *gas company* yielded four citations and a search on *stock analysts* yielded two citations.

The next database searched was ABI Global-ABI/Inform, which featured business article abstracts published between January 1971-August 1995. The first database search was the database of articles published between January 1971-December 1985. Using a keyword search on the term *investor relations* yielded 200 citations. The next search was the database of articles from January 1986-December 1991. Using a keyword search on *investor relations* produced 174 citations. The next database search was of business articles published between January 1992-December 1993. Within this period, the study's searches were further narrowed because major industry changes began during this time, which directly impacts natural gas LDCs. A keyword search on *investor relations* yielded 57 articles and a keyword search on *natural gas and analysts* yielded 32 citations. My final search in this database was articles published between January 1994-August 1995. A keyword search on *investor relations* yielded 61 citations and a key word search on natural gas yielded 1, 634 citations. And a final keyword search on *natural gas and analysts* yielded 24 citations.

The next CD ROM database searched was *Wilson Disc 3.2/ Wilson Business Abstracts*. The first series searched was published materials between January 1985-July 1993. The first descriptor searched was *investor relations* and it yielded 229 citations. The next search used *natural gas, LDC, and analyst* for descriptors and yielded no citations. The next data search was published materials between January 1985-September 1995. Again, since this time period is key to the deregulation of the natural gas industry, searches were greatly narrowed. The first descriptors used were *natural gas and analysts*, which yielded 104 citations. The next search used the descriptors *analyst, communication and problem* and produced 3 citations. The final descriptor search was performed on *public utility, analyst and gas* and yielded eight citations.

To investigate the Fortune and Forbes rankings of analyst firms the Disclosure Database version 4.4 was searched under the descriptors *security brokers and dealers,* which yielded 101 citations. Following this, a manual search of Rowan College's periodicals was performed for items related to this thesis, which were *Public Relations Journal, Financial Quarterly Review, and Financial Executive.* This search yielded one article.

To further focus the search for information Christensen & Associates, which is a full-service investor relations counseling firm based in Arizona that has handled investor relations for many major utility companies throughout the United States, was contacted. This researcher spoke with John T. Tolo, who is a vice president of the company. During the conversation, it was asked if it were possible for his firm to share information with about communicating to LDC analysts. Tolo explained that he could not divulge any information of this nature as it could allow his competitors to gain insight into the firm's research and communications practices. However, Tolo helpfully guided this researcher to several industry publications and to some of his staff.

Following a conversation with Tolo, his associate, Tait Sorenson, was contacted. He faxed several articles about communicating with analysts in general and one article ranking the top research analysts in the natural gas industry. Sorenson suggested that in addition to communicating with companies, analysts use newswire services to get information about company news and, he sees a growing trend toward use of the Internet for communicating with analysts.

Patty Bruner, who conducts research for Christensen & Associates, was also spoken with. This researcher's thesis was described to her at length and she agreed that LDCs need to do a better job of communicating their financial messages by sending the right messages to the right analysts via their preferred channels of reception. She also explained that many LDCs are sound organizations with little analyst coverage because they are *inept* at communicating with analysts. Bruner also agreed that investor relations with analysts is of key importance to LDCs as competition increases in the natural gas industry due to its deregulation. Bruner also commented that a survey of top analysts will be tough to get because of their time constraints. However, she recommended that if the top gas industry analysts couldn't be reached, that surveying their junior staffers was a sound alternative as these individuals often know the companies very well.

In addition to those conversations, the American Gas Association was also contacted. Jay A. Copan, vice president, industry finance and administration heads the thrust of AGA's investor relations functions. In a conversation with him this thesis and its objectives were explained . Graciously, Copan provided a recent summary of a survey of LDCs and their investor relations practices. The survey was of a group of 46 AGA member companies, who were going to attend an investor relations workshop in New York. Copan also suggested that making a survey too comprehensive could make the survey return rates lower from both analysts and IR people.

To further enhance the research, the Public Relations Society of America's Information Center was contacted, which provided two information packets. One packet of approximately 30 articles was ordered under investor relations and the other packet containing nearly 50 articles about public utilities.

As a part of the literature search, Richard Stockton State College's computer library system was used to search its indexes of books and periodicals for my topic. The search at this library yielded the following results. A search on *investor relations* yielded two citations. A search on *public relations* produced 134 citations. Searching *natural gas* yielded seven citations. However, searches on *local distribution company; securities analyst;* LDC; *financial relations; investor communication; gas and analysts; and investor relations and utility* yielded no citations. A search on the term *securities* yielded 91 citations. And, searching *utility* produced 74 citations. Finally, a search on the term *stocks* produced a total of 77 citations. In addition, I also conducted a manual search of this library's most current periodicals, which yielded no citations.

In addition to library searches America Online was also used for topic research by searching the on-line database archives of *Investors Business Daily*, *Business Week Online*, and *Inc.* magazine. Under *Investors Business Daily* the topic *investor relations* was searched, which yielded 250 citations; *analyst communication* yielding 250 citations; *public relations* producing 250 citations; and *natural gas* yielding 113 citations. Under *Business Week Online* a search on *investor relations* produced 257 citations; *investor relations and gas* yielded 25; *investor relations and natural gas* produced nine; *natural gas and analysts* yielded 41; *natural gas stocks* producing 39; and *natural gas and deregulation* producing nine citations. Searching *Inc.*'s online database the topics *investor relations* produced 104 citations; *investor relations and utilities* produced five articles; *communication* yielded 912; *natural gas* produced 39; and *analyst communication* produced 62 citations.

The articles for this thesis were reviewed on the basis of the following criteria:

- Relation to the natural gas industry, particularly local distribution companies
- Correlation to financial communications with analysts
- Opinions of analysts on communication
- Their relevance to investor relations and public relations
- Opinions of investor relations professionals on communication
- Their relevance to the fields of investor relations and public relations

Each article was read, summarized and applied to investor relations and public relations practices.

Terminology

AGA - American Gas Association

FERC - Federal Energy Regulatory Commission

Investor Relations/IR - "... Clearly akin to the broader public relations discipline. It involves the cultivation and enhancement of the areas of common ground between publicly held companies and their investors, whether those investors hold debt or equity securities of the firm.[12]

LDC - local distribution company

Security Analyst - "Employed by brokerage houses, banks, institutional investors such as universities and pension funds, insurance companies, investment advisory services such as Standard & Poor's, mutual funds, and others who buy securities or advise others, they are specialists in acquiring and evaluating information about companies. Most of them concentrate on a given group such as oil,

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[12] Bill Cantor, Johnnie D. Johnson, Experts in Action (New York: Longman, 1989) 45.

transportation, chemicals or foods. ... The analyst generally issues reports to the members of his or her firm, who are then guided in their own purchases or in the advice they give to customers. Many analysts either write or contribute to the market letters that have a great influence on investor's practices. Analysts representing brokerage firms are called "sell-side" analysts, and those from banks, pension funds, mutual funds and insurance companies --"money managers"-- are called "buy-side" analysts.[13]

[13] Eugene Miller, Lesly's Handbook of Public Relations and Communications, Fourth Edition (Chicago: Probus Publishing Company, 1991) 192.

Chapter 2

Review of Related Literature

To provide a foundation for this study, a comprehensive literature review was conducted. Many topics were searched, as clearly illustrated in chapter one. However, after completing an exhaustive search, the author has determined that little has been written about the communications between investor relations professionals representing natural gas local distribution companies and their industry's financial analysts. In fact, most of the literature this author found concentrated on the general field of investor relations. With that in mind, several articles from periodicals and books offered opinions on sound IR practice, which may be of a benefit to IR professionals from LDCs when they are attempting to communicate with analysts. In that vein, there are contrary opinions among experts on what sound IR practice is when dealing with analysts.

In The Public Relations Writer's Handbook by Merry Aronson and Don Spetner take a cautious approach to financial communication. They write:

> You must also be very careful about how you disclose financial information. Wall Street has been rocked in recent years by a series of prosecutions for what is called "insider trading" --the use of information that has not been publicly disclosed to identify stocks that are about to skyrocket or plummet ... The lesson for you as a corporate business writer is that whatever you disclose *must* be made available to everyone--financial analysts, newspapers, wire services--at the same time. If you give an advance look at a particular release to a favored

reporter or investment analyst, you could be liable for a lawsuit or criminal charge.[1]

To the contrary, Lesly's Handbook of Public Relations and Communications takes a more proactive approach with investor relations and financial communications and offers suggestions towards best practice. Although slightly dated, the approach takes great strides in bridging traditional communications practices with analyst communications. Lesly's says:

> Analysts narrow their interest to certain companies rather than trying to cover the universe of publicly traded companies. This means each company needs to identify and work with those who study its industry or otherwise interested specifically, rather than on all analysts as a group. ... There are 10 basic ways public relations people communicate with these analysts: 1. Arranging for the president or other key executive of the company to talk before one of the societies of analysts... 2. Special reports for analysts containing detailed and technical financial information, plans that can be revealed without violating disclosure regulations or aiding competitors, illustrations of plants and facilities and related material. 3. Tours of the main plant and facilities...
> 4. Dissemination of financial and corporate news to the analysts as well as to the press simultaneously. 5. Meeting specific requests for information from analysts , insofar as corporate security and the rules of equal disclosure permit.
> 6. Personal visits ... 7. Small discussion meetings ... 8. Appearances before "splinter" groups who specialize in the company's industry.
> 9. Teleconferencing ... 10. Presentations at the company for large groups of analysts.[2]

Adding further to those thoughts, but with a more modern, rapid-fire view is Theodore Pincus, chairman and managing partner of The Financial Relations Board, Inc., which is among the nation's largest financial public relations agencies. Pincus

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[1] Merry Aronson and Don Spetner, The Public Relations Writer's Handbook (New York, N.Y.: Lexington Books, 1993) 110-111.

[2] Eugene Miller, Lesly's Handbook of Public Relations and Communications (Chicago: Probus Publishing Company, 1991) 192-193.

writes of increasing trends of publicly traded companies to aggressively pursue financial communications with analysts:

> ... public companies will spend a record $8 billion in investor communications this year, up from $7.5 billion last year, the increasing investment of top management time and expense will more than offset further major cutbacks in budgets for investor relations staffs and annual report production costs.

Pincus also cites 16 top trends in investor relations. His thoughts pertaining to analyst communication are further examples of different methodologies of sound analyst communication.

> ... Investment professionals will demand increasing access to top management. According to the latest expressions by top analysts, money managers and brokers alike, and unprecedented degree of emphasis is being -placed on easier personal access to top officers in order to evaluate company performance and prospects in a timely fashion. This will mean greater coordination of Street needs with officer business travel schedules, appearances in key cities at least once a year, and extremely regular availability of officers for teleconference briefing pre-arranged on the afternoon of each day quarterly results are released.
>
> ... (Analysts) will demand a greater degree of instant gratification. The day is almost here when investment professionals will no longer tolerate waiting four or five days for the company mailing list to transmit in the form of a typical three- or four-page news release the full details of quarterly results or an important acquisition. They (analysts) are quickly becoming accustomed to routine usage of the fax machine by the more progressive public companies--and far beyond that, the pre-programmed, simultaneous faxing of all releases direct to the desks of interested analysts within minutes after the news is carried by national wire services ...[3]

The contrary to that view is reflected in the premier issue of "IR," a magazine specializing in investor relations. John Kelly perceives IR as both a communications and marketing skill.

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[3] Theodore M. Pincus, "16 Top Trends in Investor Relations," Boards & Directors Summer 1994: 44-46.

> "You'll have to start thinking more about marketability," says John Kelly, executive vice president in Los Angeles for D.F. King & Co. the Wall Street proxy and IR consulting firm. "That's what IR is all about. IR people may have MBAs or be number-crunchers but if they don't have marketing ability, they're going to have a tough time in this field." Forging strong interpersonal relationships, "just plain getting along with people," is the key, Kelly says. "You'll have to have an understanding of what's going on in your company and also what's going on in that industry. That's market intelligence. The other is further developing interaction skills in dealing with analysts, big-ticket writers, big brokers and the rating services."[4]

Further clouding the issue of sound IR practice is a case study presented in the *Christensen Report*, which illustrates a more methodical communications approach to IR with natural gas industry analysts. The article details the steps taken by Bay State Gas Company to increase their market presence through communications with analysts and how doing so made a more-visible presence in the analysts' minds. The program performed benchmark studies before and after the IR communications efforts to determine analysts' perceptions before and after the communications initiatives. As a part of the IR initiatives phone surveys were conducted to get perceptions and formal analyst meetings were held in New York to convey the company's important messages. The following segment illustrates the importance of sound IR communication and what can happen if a gas company does not take initiatives to maintain an ongoing IR and analyst communication program.

> "Often, analyst unfamiliarity leads to undervalution of a company through the phenomenon of *informational asymmetry*," said Christensen and Associates Senior Vice President, Alan Oshiki. "Knowledge levels among key investment decision-makers simply isn't close enough to that of company management to achieve full value until action is taken to contest the problem."[5]

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[4] Arthur Garcia, "Moving Up!" IR Premier Issue 1991: 33.

[5] No Author Listed, "Case Study: Probing the "Mind of the Market"," Christensen Report Vol. II, No. 1 (April 1996): 4.

Focusing more on the practice of meetings is freelance communications writer, Brooke Stoddard. In the article, Stoddard talks about the important value of analyst meetings for natural gas companies. Further on in the article Stoddard speaks with investor relations professionals on the issue of building relationships with analysts by providing them with accurate, timely information, which builds credibility in the investment community by telling the company's story.

> Understandably, much of IR takes place at meetings. Companies arrange presentations to analysts, most notably in New York City, because that's where the major financial institutions are. Natural gas industry analysts from such brokerages as Salomon Brothers, Merrill Lynch, and Smith Barney gather to hear recent financial statistics of gas companies and their projections for future earnings. From these presentations, the analysts make their assessments of the companies' present worth and future potential. They make recommendations to buy, hold or sell the companies' stock at certain price levels. Because these recommendations are sent to thousands of stockbrokers and then millions of investors, receiving favorable ratings from analysts is a desired goal.[6]

To the contrary of that approach is an article in *Institutional Investor*, which focuses on the trends in traits of IR professionals. The article discusses the need for IR professionals to understand finance and communications to be effective when communicating a company's position with analysts.

> Although IR gravitated away from communications in the mid-to-late 80s, the pendulum appears to be swinging the other way as management recognize the importance of sending a unified message to all consistencies. ... Steven Seiden of the New York City-based Seiden Krieger Associates observes that the job "combines the best of the right brain with the best of the left. You have to be numerate and have a press agent's mentality. IR people are not just moles anymore--they have to know how to interpret data and give advice as well.[7]

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[6] Brooke Stoddard, "Good IR is a Wise Investment," American Gas January 1994: 32.

[7] Mary Lowengard, "The Bull Market in IR Jobs," Institutional Investor November 1995: 40.

In a short phone interview, John Schnider, vice president of Newbold Asset Management in Philadelphia explained to your author that IR people need to be really plugged into management to effectively communicate with analysts like himself. He finds that phone calls, faxes and face-to-face meetings with management are effective means of communication with IR people providing they have something truly of value to say and are willing to go in-depth about the company's outlook.

Further obscuring the best IR practice issue is the advent of businesses using the Internet for financial relations both to attract individual investors as well as to open yet another communications channel with buy-side and sell-side analysts. This venue can allow analysts to follow the release of important financial information as soon as it is available on a corporate homepage or comes across the many narrow-casting newswire services available with many online services.

This very modern IR view is illustrated by an article in the *Investor Relations Newsletter*, the newsletter content focused on comments by John Viera of *Buy Side* magazine, Chuck Epstine of the online service *Prodigy*, and Harvey Shapiro, contributing editor of *Institutional Investor* magazine at a National Investor Relations Institute meeting on the subject of IR in cyberspace.

The article demonstrated the value of IR on the Internet for everything from the corporate annual report, news releases, shareholder meeting information, quarterly reports, etc. All of this information is of importance to investors and analysts. The article cites the ability to reach some 30 to 60 million Internet users instantaneously with financial messages. The article also shows that most major stock exchanges and financial institutions are presently online.

However, even within the modern era of Internet technology there is debate as to best IR practice. Later, in the same article, *Institutional Investor's* Harvey Shapiro cited four reasons not to adapt to new technology which included, cost, reduced privacy, and the fact that the Internet will never replace face-to-face communications.

Consequently, your humble author feels Mr. Shapiro will be left behind in the instant information age as many print venues decline with the ever-expanding use of the Internet for various financial and public relations. Later, Shapiro said "Getting a home page on the Internet is a bit like getting your stock traded on the Tokyo Stock Exchange--you do it because everyone is doing it, but you don't really understand the benefits."[8] Personally, your author feels that Mr. Shapiro's statement represents the true core of why sound communication skills are often needed more in IR than just the ability to understand a balance sheet.

A recent article in *Reputation Management* contrasts the views previously presented. The article emphasizes a need for IR people to understand, use and monitor the Internet. The article says that anyone in the IR business, who assumes that the rules of information supply in the online relm resemble the rules in the real world, is in for a rude awakening. The article lists the many financially related web sites like direct access to the Securities and Exchange Commission, lists of money managers, online investment chat like America Online's Motley Fool, which for the record, has offered your author significant help in reaching sources for IR. The article also quotes Carl Thompson, President of Carl Thompson & Associates, which started an online IR practice, which includes annual and quarterly reports, analyst estimates, institutions in a stock and shares held, and even management bios. "... Unlike most media, the Web operates on a pull rather than a push system. Viewers choose what they want to see rather than just having information push on them as they do in an annual report," said Thompson. He further went on to say that as more companies get on the Internet that its popularity for investors will increase.[9] Thus, the Internet

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[8] Gerald E. Murry, editor, "The Internet and Some Investor Relations Possibilities," Investor Relations Newsletter December 1995: 1-4.

[9] No Author Listed, "Bulls and Bears in Cyberspace," Reputation Management July/August 1996: 25-27.

may still be a viable way to reach and communicate with analysts and potential investors.

Further adding to the contrasting opinion of best analyst communication is an article titled IR: Staying on top in the '90s by Melinda McMullen, senior vice president, Edelman Public Relations Worldwide. McMullan feels the goal of IR is to "help our companies be better heard, understood and, ultimately, fairly valued." To reach key audiences such as analysts she recommends knowing the investment style of the audience; using targeted direct mailings; involving 15-20 percent of senior management's time on IR efforts; analyst phone calls and meetings; producing stories; and evaluating the latest technologies. One of the key points McMullen closes her article with is that IR professionals need to be flexible because as soon as they learn to communicate effectively--new technology or transactions evolve and invalidate the process.[10]

Contrary to her article, Win Neilson, managing director of Cameron, Towey authored an article that is truly the kink in the chain of analyst communication troubles for the local distribution companies covered in this paper. Neilson focuses his article on IR for small- to mid-sized publicly traded companies. He notes serious problems with analyst communication is often brought on by the mere size of an organization. Neilson writes, "(For smaller companies) ... gaining investor attention is much more difficult. The vast majority of security analysts--both sell- and buy-side--will look only at large market-cap companies (those whose stock outstanding has a market valution in excess of $350-$500 million.)[11] Thus, is the case for many LDCs,

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[10] Melinda McMullen, "IR: Staying on top in the '90s," Public Relations Journal Vol. 46, No. 4 (April 1990): 30-31.

[11] Win Neilson, "Integrating IR and other public relations--Smaller Companies: Persuading top management," Public Relations Journal Vol. 46, No. 4 (April 1990): 26+.

which clearly throws a roadblock up even with the best attempts for analyst communications. Neilson goes on further to say that to remedy some of the disadvantages of size, companies should tailor their communications to meet the needs of carefully selected members of the financial community. Neilson says to communicate effectively, the IR officer must have a solid grasp of what the financial community's perceptions are of the company. Once this is known, Neilson feels management can better focus in on the issues and points to stress. Further, Neilson states that the IR pro should brief management on the individuals they are meeting with so the presentations can be tailored to the audience. Neilson also recommends follow-up meetings with the financial community to see how they judged management and to measure the effectiveness of the presentations. Finally, he recommends adding support to the meetings with carefully targeted media efforts with the financial press, regional press and trade publications.[12]

Further adding to the many opinions of best IR practice with Wall Street analysts is an article by Mark B. Leeds, a PR/IR firm partner, and Bruce W. Fraser, a freelance financial writer. They feel many CEOs do not pay attention to Wall Street unless the company is involved in a merger or public offering situation. Both Leeds and Fraser agree that ignoring analysts can be detrimental to a company's stock value. Leeds and Fraser indicate that public companies with active, credible IR programs over the last 15 years generally enjoy higher price-to-earnings multiples and greater stock price stability. According to them, companies also benefit from IR because a higher stock price makes for more troublesome hostile take over attempts; grows shareholder loyalty; and helps companies get through crises. These points are sure to interest

[12] Ibid., p. 29

executives of mid-sized LDCs because at this time mergers and hostile take -overs are the order of the day for public utilities.

Leeds and Fraser further espouse the gospel of sound communication practices with Wall Street analysts. They feel if a company is doing a good job of communicating with analysts and other financial community members, a company's stock price is less volatile in market downturns. They also feel that being a *known* company among the investment community can help a company and its management enjoy favorable opinion and credibility in even the worst times.

To become known, Leeds and Fraser stress communication. They recommend using a variety of trade, industry and financial media outlets as well as the traditional media venues to spark interest in the company. However, Leeds and Fraser also recommend conducting an audit of the market's opinion of the company via in-depth surveys or phone interviews to find out why the market feels a certain way about a company. Leeds and Fraser recommend that companies are forthcoming about good and bad news to gain credibility with analysts. They feel the concentration of a company's communication should focus on sell-side and buy-side analysts with specific attention paid to top-rated or trend-setting analysts and to market researchers.

To successfully attract analyst attention Leeds and Fraser feel IR professionals should consult local analyst societies' calendars and schedule analyst meetings on days that do not conflict or compete with other events. They advise on beginning corporate presentations at least six months in advance of dates convenient to management and advise a long lead time for meeting invitations. Finally, Leeds and Fraser feel major meetings of 15 to 50 professional analysts are vital to an IR program. The advise that presentations should follow with Q&A sessions and subsequently follow up with one-to-one analyst meetings with top management. Leeds and Fraser feel one-on-one meetings are most-likely to result with an analyst's research decision. In conclusion, Leeds and Fraser say this about sound IR communication with analysts, "Wall Street will be making decisions based on improved communications and understanding, on the ensuing credibility gained, and on strategic values rather than short-term phenomena."[13]

Further contributing to the divergent opinion about the sound practice of IR, is an article titled, Investor Relations as Issues Management. The article emphasizes the need for sound PR approaches to issues as they can affect analyst opinions of corporations. The article suggests that the most successful companies with analysts integrate their PR and IR programs to communicate unified messages to diverse audiences.

First interviewed in the article is Robert Amen, former president of the National Investor Relations Institute. Amen feels that due to increased consumer and social activism IR in the 90s is now also akin to issues management. Amen says IR programs are run like political campaigns with companies going one-to-one with (analysts) to explain their financial positions and plans. Amen feels that investors are demanding not only, required financial disclosure but disclosure about generic and specific public issues such as the environment.

Later in this article, Mallory Factor, president of Mallory Factor, Inc. says this about IR in relation to issues management,"... Companies are communicating with a whole range of people, and the messages have to be consistent, or the integrity of the message is threatened."

Robert Amen agrees with Factor and says, "You only need to look at how often analysts are sought out by the media for their opinions on a whole range of corporate decisions, on new regulation and policy decisions, to realize that there is more interaction between PR and IR than ever before It is important to understand

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[13] Mark B. Leeds & Bruce W. Fraser, "Why Wall Street Matters," Management Review September 1993: 24-26.

valution and P/E ratios, but IR people have to remember that perceptions are also crucial."

Amen and Factor's views are further lauded by Rob Swadosh, executive vice president at Golin/Harris. He cites that analysts that follow companies are interested in more issues than in the past. He feels the investment community is not only concerned that a company has goals and objectives but is also concerned how they will be achieved and whether a company is socially responsible. Swadosh says investors are interested in this because if a company is on the *wrong side* of an issue in the public's eye, it can hurt a company's bottom line because they are exposed further to consumer activism and governmental regulations.

Of the aforementioned opinions about communication with analysts, none is so different than the following article called *The Analyst's Secret Mission*, which is written by Kenneth Gassman, a securities analyst and first vice president for Davenport & Co. of Richmond, Virginia. Gassman has 15 years experience in the securities business as an analyst. His views of valuable information come from both traditional and non-traditional means of communication.[14]

Gassman says analysts are information processors following 12-28 companies at a one time and if an analyst is not a good communicator he will fail. Gassman says what analysts want most is information which gives them an edge. He feels with today's database technology, most analysts are on an even playing field as far as numbers go.

To gain an edge in the market, he sometimes calls a company's employees to find out if the spin about the business is actually true. He also gathers information about companies by posing as a customer or buy talking to a company's suppliers.

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[14] Kenneth Gassman, "The Analyst's Secret Mission," Financial Executive Vol. 11, No. 1 (January/February 1995): 49.

Gassman also says analysts get an edge by monitoring the personal lives and health of a company's top executive management because should something happen at the top the company will likely be affected.[15]

For better communication with analysts Gassman recommends that IR/PR people need to keep information flowing to them consistently. To do this he advises using fax, newswire services, phone conferences, in-person meetings, and timely management responses to questions asked by analysts. He also recommends that management is available for comments when significant new releases are sent out such as earnings. Gassman feels that if management is not available for comment that analysts often interpret it as bad news about the company.

Further, Gassman recommends that IR people need to keep all the analysts following their company equally informed about its activities and warns that trouble can occur for showing certain analysts preferential treatment. He also reminds IR people that analysts take copious notes even during small talk on the phone and to be mindful of what is said--even in passing. Gassman also points out that analysts usually have several newswire services running into their offices all day. Thus, IR people need to realize the instant-information need the analysts have to react to the marketplace and daily events impacting it.[16]

To maximize the relations with analysts, Gassman says IR people should realize that analysts are the best way for companies to communicate their financial positions to Wall Street. Further, he says IR people need to make sure communication channels are open with analysts so IR people can review reports about the company for accuracy before they are published. Gassman also recommends that companies

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[15] Ibid., p. 49

[16] Ibid., p. 50

dedicate at least two, full-time IR people. Finally, he advises that IR companies realize the important need for good IR with analysts because of its potential impact on their stock prices.[17]

Citing the increasing influence of analyst reports, in a 1981 survey of 542 institutional investors, who said that over a third of the institutions made investment decisions based on analyst reports, Nathan Weber, a financial writer interviewed several top IR people in the late '80s about their views on what skills and communication techniques should be used with this key audience. The panel of IR experts included, representatives from these companies: Becton Dikson; Service Corporation International; Lowe's Companies; Omega Equipment Corporation; Probigen, Inc.; Comstat; Chicago Tribune; and Automatic Data Processing, Inc.

As a result of the in-depth interviews with the panel, Weber was able to conclude that to maintain good analyst relations at the basic level, IR practitioners need excellent, oral and written communication skills as well as a solid background of financial concepts. He further, cites that IR people must hone the skills of keeping the investment community abreast of constantly changing issues.

Weber came up with the following summary as the best IR practices for analyst relations. To be successful, he says companies need to take a proactive approach instead of a reactive approach to the market and to reach out to analysts as this encourages them to follow a company. Next, to establish credibility with analysts he promotes providing a straightforward presentation of facts and to avoid hiding bad news. Weber also concludes that IR professionals need to become experts at disbursing, clear, consistent information to analysts. Further, Weber feels that top management should always be available to respond to analyst questions that the IR

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[17] Ibid., p. 50+

executive is not able to answer. Weber feels the communication channels between analysts and executive must be maintained and kept open at all times.

In addition, Weber recommends that companies provide forecasts to analysts because analysts create their own forecasts. By providing analysts with a more-detailed understanding of the company's future outlook, analysts may be able to fill in any information gaps. Weber also advises that IR people writing, all printed financial publications including the company's annual and quarterly reports in simple, jargon-free language because analysts prefer this writing style. However, he also says that financial publications should also be visually pleasing to attract attention but not necessarily slick in appearance. Finally, Weber concludes that it is essential for IR professionals to constantly seek feedback from analysts--especially about key financial presentations.[18]

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[18] Nathan Weber, "Communicating with Security Analysts," The Conference Board October 1985: 1+.

Chapter 3

Procedures & Methods

Two survey instruments were designed to investigate, compare and contrast the opinions of LDC analysts and LDC investor relations people. The first survey instrument was geared toward analysts and consisted of 26 questions. The survey was designed to attain the following information:

- Frequency of analyst communication with LDCs;
- Analysts opinion of the efficacy of these communications;
- How analysts measure the effectiveness of communications with LDC IR departments;
- Analysts feelings about the level of commitment to IR programs on the part of most LDCs;
- The extent that LDC IR programs successfully communicate information analysts need;
- Analysts understandings of LDCs as a result of communications with their IR departments;
- The impact of industry deregulation on IR with LDCs;
- Analysts IR contact preferences;
- Analysts opinions of the ability of these individuals to communicate effectively;
- Analysts' first contact when they seek out an LDC for information;

- How analysts receive their financial messages about LDCs and their impression of the effectiveness of these pieces;
- Analysts opinions on the five most-effective ways for LDC IR people to communicate their financial messages and positions to them;
- Analysts perceptions of how well their information needs are met by LDC IR departments;
- Analysts' opinions of how timely LDC IR people respond to their questions;
- Analysts' perceptions of LDC IR aggressiveness;
- The overall effectiveness of communications sent by LDC IR departments;
- Analysts' preference between communicating with an IR firm or an in-house representative;
- Whether the analysts represents the buy- or sell-side;
- Analysts' perceptions of the degree to which LDC IR representatives understand analyst' time constraints;
- The number of LDCs an analysts follow;
- Analysts' perception of LDC IR staff's competence;
- Whether analysts perceive that LDCs are making enough efforts to communicate with them;
- Whether analysts are satisfied with the information they receive from LDC IR departments;
- Whether analysts feel LDC IR people need to improve their communication skills;
- The biggest problem analysts face when they contact an LDC for information;
- Any additional comments about the communications analysts take part in with LDC IR departments.

Fourteen of the questions were multiple response and six were forced choice. The remainder were open-ended questions and elicited information about communication effectiveness; preference for IR contact; opinion on best ways to communicate with analysts; number of LDCs analysts follow; problems encountered by analysts when contacting an LDC's IR department for information; and general opinion on IR communication with LDCs.

The second survey instrument was quite similar to the first, but not identical. This survey was geared toward the LDC investor relations professionals. This survey instrument consisted of 23 questions and was designed to gather the following information:

- The existence of an IR program;
- Frequency of communication with analysts
- The extent that IR people feel these communications were successful;
- How LDC IR measure successful IR communication;
- Level of LDC commitment to an IR program;
- Whether LDC IR people research the communications their analysts prefer;
- Whether LDC IR people feel analysts understand their company;
- The effect of deregulation on IR programs at LDCs;
- Who the chief company IR communicator is;
- Whether the chief IR communicator is trained or coached to communicate effectively with analysts;
- The ways LDC IR people communicate messages to analysts and their opinion rating of its effectiveness;
- LDC IR professionals' opinions on the most-effective IR tool used to communicate with analysts;
- LDC IR professionals' self perception of timely response to analyst's requests for information;

- An aggressiveness rating of LDC IR programs;
- A general opinion by LDC IR people of how effective they feel their IR program is;
- Whether IR firms or LDCs develop their IR programs or both;
- Which analysts are sought out most by LDC IR professionals;
- Where IR is situated in an LDCs' corporate structures;
- The role of public relations staff in IR at LDCs;
- The location of where the LDC's stock is traded;
- The LDCs annual earnings;
- Any additional comments about LDC IR programs.

Thirteen of the survey questions were multiple response and three were forced choice. The remainder were open-ended questions designed to find out how LDCs measure successful IR communications; who the chief IR contact is; opinion of the most-effective IR tool for communicating with analysts; where IR is situated in the LDC corporate structure; where the LDC respondent's sock is traded; the LDC 's annual earnings; and any additional information that wished to be provided.

The following hypotheses were developed from a review of the related literature:

- LDCs need sound investor relations communications with their industry analysts to maintain optimal value to their shareholders and to remain competitive in a deregulated market;
- IR professionals need a better understanding of the needs of their industry analysts;
- Traditionally, IR communication has not been of major importance to most natural gas LDCs because earnings and dividends were historically steady due to a lack of competition within their service territories;

- IR professionals from LDCs need to improve their communications techniques with analysts.

The questions from both surveys were designed to test these hypotheses. A cover letter of explanation accompanied the surveys . The surveys were designed for completion in under 10 minutes.

LDC investor relations professionals listed in the American Gas Association's 1994-1995 Communications, Consumer & Community Affairs Directory, served as the total population for the IR professional's survey. Seventy individuals were listed as IR contacts. The following IR representatives were eliminated from the survey mailing: American Gas Association IR representatives ; sole pipeline and transmission companies; combination utilities of electric, gas, and water; non-publicly traded LDCs, and non-U.S. LDCs were also eliminated. This was done intentionally by the author to focus on companies that exist as diversified distribution companies. As defined by the Edward D. Jones & Company a diversified natural gas distribution company is one with at least 30 percent, but not less than 90 percent ,of its operating revenues produced from the distribution of natural gas.[1] All IR representatives not representing companies of this nature were eliminated from the survey mailing.

Twenty-three LDCs fell into the diversified category. However, of the 23 companies, six were intentionally eliminated because their names did not appear in the American Gas Association's 1994-1995 Communications, Consumer & Community Affairs Directory. From the remaining 15 companies, 10 were selected to receive surveys. These IR professionals were selected by simple random sample.[2]

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[1] Daniel A. Burkhardt, Marilyn A. Gaffney, James A. Krekeler, "Financial & Common Stock Information," Natural Gas Industry Vol. 16, No. 8 (August 31, 1995): 2-35.

[2] Anthony J. Fulginiti, APR, Power-Packed PR: Ideas That Work (Blackwood, NJ: Don Bagin, 1988) 42.

Natural gas industry analysts listed in Nelson's 1994/95 Investment Research Guide served as the total population for five of the analysts polled in this survey. Five analysts were intentionally pre-picked by the author because of their prominence in the securities industry. These analysts were listed in the October 1995 edition of *Institutional Investors* members of the 1995 All-America Research Team. These analysts were Curt Launer of Donaldson Lufkin & Jenrette, Ronald Barone of PaineWebber, David Fleischer of Goldman Sachs, John Olson from Merrill Lynch, and Steven Parla of CS First Boston.[3] Five alternates were also chosen as alternates in the event that these surveys were not returned. The remaining five analysts were selected using simple random sample.[4] However, their names and companies are intentionally held in confidence.

Both the analyst survey and IR professional surveys were mailed containing a self-addressed stamped return envelope and cover letter. A copy of these surveys and cover letters and are found in Appendix A.

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[3] No Author Listed, "1995 All America Research Team," Institutional Investor October 1995: 156.

[4] Anthony J. Fulginiti, APR, Power-Packed PR: Ideas That Work (Blackwood, NJ: Don Bagin, 1988) 42.

Chapter 4

SURVEY FINDINGS

Introduction

The purpose of this study's surveys were to compare and contrast the opinions about the communications between financial analysts and investor relations professionals from natural gas local distribution companies and to find out if LDC investor relations professionals are effectively communicating their companies' financial messages in ways that suit the information needs of their industry's financial analysts. The study investigated the opinion of quality and methods of communication between the two groups.

As explained in the preceding chapter, the surveys were sent to 15 analysts and 10 IR professionals from natural gas local distribution companies. These surveys were conducted by mail between December 1995 and June 1996. Ten of the analyst surveys were returned and all 10 of the LDC IR surveys were returned.

FINDINGS OF ANALYST SURVEY

Forty percent (4) of the analysts surveyed stated they communicate with LDC IR people on a quarterly basis; 30 percent (3) reported daily communication; 20 percent (2) monthly and 10 percent (1) weekly.

Sixty percent of the analysts ranked the communications as *somewhat* successful while 40 percent ranked them *highly* successful.

All the analysts surveyed indicated that they measure the success of the communication with IR professionals by the quality and accuracy of responses in relation to providing insight to the company and industry related issues.

Eighty percent of the analysts surveyed felt that LDCs were *highly committed* to their IR programs. However, 20 percent felt that LDCs were only *somewhat committed* to an IR program.

Feelings were split among analysts on whether LDC IR pros succeed at communicating the information they need. Fifty percent felt the IR people did communicate the needed information but 50 percent also said the programs were only *somewhat successful* at communicating desired information.

As a result of the communications with LDC IR pros, 60 percent of the analysts felt they had a *high* understanding of LDCs and their financial positions. But, 40 percent reported having only *somewhat* of an understanding of the companies as a result of the IR communications.

Forty percent of the analysts reported an *increase* in IR activity as a result of gas industry deregulation; 30 percent noted *somewhat* of an increase; 20 percent cited *no increase*; and 10 percent felt IR communications *greatly increased* due to deregulation.

Analysts' Perception of IR Due to Deregulation Shown in Percent					
Increase	80				
No Increase	20				

TABLE 1

Fifty percent of the analysts prefer to speak with the CEO/CFO as the chief IR communicator; 40 percent the IR Director and 10 percent had no preference. All of the analyst felt that these individuals can communicate the information they need. Eighty percent of the analysts reported calling the IR department first for information and 20 percent reported calling the CFO's office first for information.

The next section asked analysts to evaluate the effectiveness of certain types of communication and methods of dispersing information to them. The results are shown as follows in Table 2:

Analyst Rankings of Specific Communications Shown in Percent				
Communication	High	Medium	Low	N/A
Ad-Hoc	20	60	10	10
Annual Report	40	60	0	0
New Release	50	40	10	0
Direct Mail	20	10	40	40
E-Mail	20	0	10	70
Newswire	40	40	0	20
Quarterly Meetings	70	30	0	0
Annual Analyst Meeting	70	30	0	0
Post Office Mail	0	40	30	30
Teleconferencing	30	50	0	20
Executive Interviews	50	10	0	40
Quarterly Reports	30	60	0	10
Fax	60	40	0	0
Heads-Up Call	70	30	0	0
10K	30	50	0	20
10Q	20	60	0	20
Newsletters	20	20	40	20
10-Yr. Forecasts	30	10	0	60
5-Yr. Stat Books	0	40	20	40
Factbooks/Sheets	30	40	10	20
Forecasts	50	20	0	30
Spec. Events	10	40	10	70
Corporate Image Adver	0	10	20	70
Speeches	10	20	40	30

TABLE 2

Next, analysts were asked to rank the five most effective ways for LDCs to communicate their financial messages and positions. Because of the subjectivness of this ranking, responses varied too greatly and no consensus of opinion could be determined. However, 50 percent of the analysts named one-on-one meetings with top management as the most effective means for communicating. This response was followed closely with 40 percent of the analysts rating pro-active phone calls as also the most effective means to communicate with them.

The issues of teleconferences and group analyst meetings were also noted in 90 percent of every analyst's ranking of their top five most-effective communication methods, but again, due to the variance in rank placement no consensus could be accurately determined.

In the next segment, 70 of the analysts surveyed felt that IR people do a *good* job in meeting their information needs; while 20 percent ranked LDC IR pros as *excellent* and 10 percent felt IR people do a *fair* job of meeting their information needs.

Sixty percent of the analysts felt that IR people are *timely* in meeting their information needs; 20 percent felt IR people were *somewhat* timely. The remaining 20 percent felt IR people were *very timely* in meeting their information requests.

As far as the pro-activeness of LDC IR programs, 60 percent of the analysts ranked the programs as *medium* and 40 percent ranked them as *highly* pro-active.

Seventy percent of the analysts ranked the effectiveness of communications sent to them by LDC IR people as *medium* in effectiveness and 30 percent felt the communications were *highly* effective.

Analysts were also asked to whether they prefer to speak to an IR firm or in-house representative. Seventy percent preferred speaking to an insider and 30 percent liked speaking to an IR firm representative.

Who Analysts Want to Talk to Shown in Percent				
Insiders	70			
IR Firm	30			
TABLE 3				

Sixty percent of the analysts surveyed represented the buy-side and 30 percent the sell-side. One question was not answered on this topic.

Fifty percent of the analyst surveyed felt that LDC IR people only had a *medium* idea of their information needs and time constraints but 40 percent felt the IR people had a *high* understanding. Ten percent felt LDC IR people had a low understanding of analyst information needs and time constraints.

The analysts surveyed reported following multiple LDCs at one time. The group averaged following 12 LDCs.

Analysts ranked their perception of competency of LDC IR people. Sixty percent felt the IR reps were *competent*, 30 percent *somewhat competent* and 10 percent *highly competent*.

Eighty percent of the analysts surveyed felt that LDC IR pros are doing enough communicating with the analysts while 20 percent did not.

Ninety percent of the analysts surveyed felt satisfied with the content of the information they receive from LDCs while 10 percent did not.

Fifty percent of the analysts felt that IR people need to improve their communication methods while the other 50 percent did not.

Several analysts chose to answer the question of the biggest problems they encounter with LDC IR departments. Their insightful comments were as follows:

Comment 1: "IR reps are too often reluctant to comment on any corporate strategy issues unless they are the CFO or treasurer."

Comment 2: "The biggest problem is not getting the information I requested."

Comment 3: "Lack of timeliness and encountering voice mail."

Comment 4: "Giving me too much irrelevant information, which wastes my time. Few IR people realize what is really important to us on Wall Street and end up wasting our time."

Comment 5: "IR person not able to discuss relevant issues or is unable to access this type of information."

Comment 6: "Not receiving all the requested information."

Comment 7: "Hearing --that info is not available yet."

Comment 8: "I have no problems the industry reps go out of their way to help me understand their industry."

FINDINGS OF LDC INVESTOR RELATIONS SURVEY

One hundred percent (10) of the IR professionals confirmed they have had an investor relations program.

Forty percent of the IR people reported communicating to analysts on an as-needed basis; 20 percent daily; 20 percent weekly; 10 percent monthly; and 10 percent quarterly.

Seventy percent of the IR people feel that their communications with analysts are *highly* successful while 30 percent ranked their communications as *somewhat* successful.

Fifty percent of the IR people measure the effectiveness of their communications by the accuracy and content of the analyst's report. Twenty percent measure the effectiveness using written surveys after meetings or phone surveys. Ten percent use the company's stock price as a factor in determining whether communications were successful and another 10 percent use the company's price-to-earnings ratio as a gauge of successful communication. Finally, 10 percent use analysts ratings of their company as a measure of the success of communication.

One hundred percent of the IR people surveyed fee their companies are *highly* committed to an IR program.

All the IR professionals claim to have conducted research into which kinds of communication analysts prefer.

Seventy percent of the IR people surveyed felt that analysts had a *high* understanding of their company and 30 percent felt as though analysts had only *somewhat* of an understanding of their company.

Forty percent of the IR people surveyed felt that the deregulation of the natural gas industry had not affected their IR programs efforts but, 30 percent reported that it caused their programs to increase somewhat. Twenty percent of the IR people reported that natural gas industry deregulation had caused their IR efforts to increase and 10 percent reported a great increase in IR efforts as a result of deregulation.

Deregulation & LDC IR Efforts Shown in Percent				
Increase	60			
No Increase	40			
TABLE 4				

Thirty percent of the IR people surveyed reported that the chief IR communicator is the director of investor relations; 20 percent cited the chief financial officer; 20 percent the general manager of IR; 20 percent the vice president of IR; and 10 percent the treasurer.

Fifty percent of the IR people surveyed reported that their chief financial communicator is neither trained nor coached to communicate effectively. Thirty percent reported that their chief financial communicator is trained for effective communication. Ten percent reported that their chief financial communicator is coached in effective communication and another 10 percent reported that this individual is both trained and coached to communicate effectively with analysts.

The next section asked IR people to evaluate the effectiveness of certain types of communication and methods of dispersing information. The results are shown as follows in Table 5:

IR Practitioners Ranking of Specific Communications Shown in Percent				
Communication	Highly	Medium	Low	N/A
Ad-Hoc	40	10	0	50
Annual Report	40	60	0	0
New Release	70	30	0	0
Direct Mail	40	10	0	0
E-Mail	0	0	0	10
Newswire	30	10	10	50
Quarterly Meetings	50	10	0	40
Annual Analyst Meeting	60	0	0	40
Post Office Mail	0	0	20	80
Teleconferencing	60	20	0	20
Executive Interviews	20	10	10	60
Quarterly Reports	20	30	30	20
Fax	70	0	0	30
Heads-Up Call	60	0	0	40
10K	50	40	0	10
10Q	40	40	0	20
Newsletters	0	20	0	80
10-Yr. Forecasts	10	0	10	80
5-Yr. Stat Books	10	40	0	50
Factbooks/Sheets	30	10	20	40
Forecasts	10	0	0	90
Spec. Events	0	20	0	80
Corporate Image Adver	0	10	10	80
Speeches	10	20	0	70

TABLE 5

Thirty percent of the IR people felt that one-on-one meetings were their most effective means of communicating with analysts and 40 percent claimed teleconferencing with analysts was their most-effective method for communications. Ten percent felt the company's annual report were best for analyst communication; 10 percent quarterly reports; and 10 percent group analyst meetings.

Forty percent of the IR pros felt they met analysts information needs in an excellent fashion, however, 40 percent ranked their efforts to meet analyst information needs as good.

Eighty percent of the IR pros feel they respond to analysts information requests in a *very timely* manner and 20 percent feel they meet them in a *timely* fashion.

Sixty percent of the IR pros ranked their IR programs aggressiveness as *moderate* while another 30 percent rated their programs as *highly* aggressive. Ten percent felt their IR program was not aggressive.

Fifty percent of the IR pros ranked their IR programs as moderately effective and 40 percent rated their programs highly effective. Ten percent felt their IR program was low on effectiveness.

Seventy percent of the IR pros stated that they develop their IR programs internally and 30 percent said they use a combination of internal and agency efforts to develop their initiatives.

Sixty percent of the IR pros stated that they pursue coverage equally from both buy-side and sell-side analysts. However, 40 percent indicated a preference to pursue buy-side analysts over sell-side analysts.

Which Analysts LDCs Seek Shown in Percent	
Both Buy/Sell-Side	60
Buy-Side Only	40
Sell-Side Only	0

TABLE 6

Forty percent of the IR pros surveyed stated that IR falls into the finance area in their corporate structure; 30 percent said the IR post reports to the CEO; 20 percent report to the CFO; and 10 percent said the IR post falls into the strategic planning branch of their company.

Forty percent of the IR people surveyed said that corporate communications does not have a significant role in investor relations; 40 percent reported that corporate communications/PR plays somewhat of a role in their IR efforts; and 20 percent indicated that corporate communications/PR has a highly significant role in their IR efforts.

Role of Corporate Communications in IR			
Shown in Percent			
Not Significant	40		
Somewhat Significant	40		
Highly Significant	20		
TABLE 7			

All of the LDCs surveyed are traded on the New York Stock Exchange. The annual earnings of these companies are held in confidence by the author to protect their identities.

Chapter 5

SUMMARY, FINDINGS, CONCLUSIONS & RECOMMENDATIONS

Summary

Problem

The purpose of this study was to investigate whether investor relations professionals from natural gas local distribution companies (LDCs) are effectively communicating with financial analysts, who follow their industry. More specifically, whether a need for improved communications techniques on the part of investor relations professionals when communicating to analysts. Therefore, this study asked: Are LDC investor relations professionals effectively communicating their companies' financial messages in ways that suit the information needs of their industry's financial analysts?

Procedure

An in-depth review of related literature on the topics of investor relations, communications and financial analysts was conducted as were phone interviews with industry experts on the topic of IR.

Following the formulation of the research problem and purpose of this study, it was decided to use surveys of IR professionals and natural gas industry analysts to gather data on their perceptions of communication techniques, preferences and activities and to compare and contrast the opinions of the two groups. The individuals surveyed were among the top professionals in their respective fields.

Over the course of several months letters explaining the study and surveys were mailed to the analysts and IR professionals and returned. The data from which the findings of this study were derived, were entered into a spreadsheet program for analysis by the author.

Findings

The major survey findings of this study are summarized as follows:

- Sixty percent of the analysts surveyed felt that communications with professionals were only somewhat successful while 70 percent of the LDC IR pros ranked the communication as highly successful.
- Eighty percent of the analysts felt LDCs were highly committed to IR programs and 100 percent of the IR professionals felt their companies were committed to a successful IR program.
- All the IR pros claimed to have researched the types of communication analysts prefer, however, 50 percent of the analysts felt that LDCs were only somewhat successful at communicating information they need.
- Fifty percent of the analysts prefer to speak with senior officers like the CEO/CFO as the chief IR spokesperson., and, 80 percent reported calling these individuals first over the IR director.
- Fifty percent of the analysts ranked one-on-one meetings with top management as the most effective means for IR communications and 40 percent also noted pro-active calls as highly effective. However, only 30 percent of the LDCs ranked one-on-ones as most effective.

- Sixty percent of the analysts ranked the LDC IR programs as moderately pro-active.

- Seventy percent of the analysts ranked the communications sent to them by LDCs as moderately effective and 50 percent of the IR people rated their program as only moderately effective.

- Seventy percent of the analysts prefer to speak to a company insider over an IR firm representative.

- Combined, 60 percent of the analysts felt that LDC IR need a better understanding of their information needs and time constraints.

- Fifty percent of the analysts indicated that LDC IR pros need to improve their communication methods.

- Fifty percent of the IR people surveyed reported that their chief financial communicator is neither trained nor coached to communicate effectively. Thirty percent reported that their chief financial communicator is trained for effective communication. Ten percent reported that their chief financial communicator is coached in effective communication and another 10 percent reported that this individual is both trained and coached to communicate effectively with analysts.

- Seventy percent of the LDC IR programs are developed internally.

- None of the LDC IR programs are under their company's Corporate Communications branch.

- Combined, 80 percent of the LDC IR pros indicated that Corporate Communications does not play a significant role or has only somewhat of a role in their investor relations programs.

- The analysts surveyed indicated closely following upwards of 12 LDCs at any given time.

Conclusions

Based on the preceding findings, the following conclusions are drawn from the study:

- Analysts are exceptionally busy individuals with specific communication and information needs and tight deadlines much like journalists.
- Some LDC IR professionals, while having the appropriate financial background, seldom have proper training in the area of communications or public relations techniques and strategies.
- LDC IR professionals are able to successfully communicate to analysts but often do not provide the analyst with the information requested or too much unneeded information such as *puff-piece* news releases.
- Analysts prefer direct communications with an LDCs senior management when they have relevant information to convey about the company's financial future.
- Analysts need to be specific when requesting information from an LDC's IR department.
- Analysts often receive communications from LDCs that have little meaning to the analysts. For example: historical data instead of projections for future growth opportunities.
- For LDCs, analysts prefer speaking to in-house IR representatives over IR firms. This is likely due to the uniqueness of the utility industry compared with other businesses.
- Some analysts feel LDC IR professionals do not understand their information needs.
- Most analysts felt that LDCs are communicating frequently enough with them; however, the quality, content and effectiveness of the communication is questionable.

- LDC IR professionals felt their communications are successful yet few ranked their IR programs are highly successful.
- At many LDCs the Corporate Communications/PR branch of the company has little to do with analyst communications or investor relations.
- Investor relations is a highly specialized function encompassing the realm of finance and communications. A deficiency in either subject area may lead to ineffective communications between LDCs and their analysts. Thus, a solid background in both areas is needed by an LDC's chief investor relations communicator to effectively deliver the right message to the right audience through the proper channel to gain influence and credibility in the financial marketplace.
- Analysts have varying but definite preferences for the ways they receive communications. LDC IR professionals should find out the way the analyst prefers to get the message before sending it such as faxing, e-mail or teleconferencing.
- Improved communications skills are needed by LDC IR professionals to get their companies' messages to their industry analysts.

Recommendations

The following recommendations were derived from the findings and conclusions of the investigation:

- LDCs need to ensure that their chief financial communicator and other members of senior management are extensively trained in the area of communication to improve the likelihood of their message getting across to the financial community through analysts.
- LDCs should investigate an analyst's preferred method of communication and specific information needs before attempting to communicate with those individuals.

- Senior management from LDCs need to spend a significant amount of time, perhaps as much as 50 percent, communicating and developing relationships with securities analysts.
- Occasionally, a communications audit should be performed by outside public relations counsel on all communications made with or sent to analysts to measure their readability and effectiveness. Outside counsel is recommended for objectivity.
- Face-to-face and group analyst meetings should be a routine part of a successful IR communications program.
- LDC IR professionals need to stay current with information gathering and disseminating technologies to adapt to the growing instant information needs of the financial community.
- More in-depth research should be conducted into the attitudes and behaviors of analysts to develop a psycho-graphic profile that will help IR people understand analysts' motivations and biases. Thus, communications could be tailored to reduce distortion between the IR professionals and analysts.
- Further research should be conducted into the area of why LDC IR professionals feel they are successful at communicating with analysts but give their IR programs such mediocre effectiveness ratings.
- Corporate public relations professionals, who work for LDCs need to take an active role in communications with analysts including the content and delivery of the message.
- LDCs need to strengthen the link between their branches of Finance and Corporate Communications to develop a unified message as told by its many voices.
- To replicate this study or expound upon it, the author recommends using phone interviews with both the analysts and IR professionals.

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APPENDIX A

SAMPLE IR LETTER

Date

Mr. John Doe
Investor Relations Professional
123 Main Street
Anyplace, NJ 08000

Dear Mr. Doe:

My name is Randy Ryerson and I am a graduate student at Rowan University. I am writing a thesis on investor relations between natural gas IR professionals and industry analysts. Kindly complete the enclosed survey and return it in the self-addressed, stamped envelope as soon as possible. Thanks in advance of your cooperation.

Sincerely,

P.S.

Your input is **critical** to my research. Please respond promptly.

IR Survey

Directions: Please circle or check the response that best represents your opinion. All responses are confidential.

1. Do you have or have you ever had an investor relations program? Yes No

1a. If no, why not?____________________

2. How often do you communicate with natural gas industry analysts?

   Daily Weekly Monthly Quarterly Annually As-needed

3. To what extent do you feel these analyst communications are successful?

   Highly Somewhat Unsuccessful

4. How do you measure the effectiveness of these communications?

____

____

5. To what extent is your company committed to an investor relations program?

   Highly Somewhat Uncommitted

6. Have you done research to see which kinds of communication and information analysts prefer?

   Yes No

7. How well do you feel analysts understand your company?

   High understanding Somewhat of an understanding Poor understanding

8. To what extent has deregulation affected your IR efforts?

   Greatly Increased Increased Somewhat Increased Decreased Greatly Decreased

9. Who is the chief investor relations communicator?____________________

9a. Is this individual trained or coached to communicate effectively?

   Coached Trained Neither Both

10. Check the way you communicate financial messages to analysts. Then, rate your opinion of the effectiveness of the communication by circling H=High Effectiveness; M=Medium Effectiveness; L=Low Effectiveness; N/A=Not Applicable.

Communication	Effectiveness Rating			
____ Ad hoc communication	H	M	L	N/A
____ Annual Reports	H	M	L	N/A
____ News Releases	H	M	L	N/A
____ Direct Mail	H	M	L	N/A
____ Electronic Mail	H	M	L	N/A
____ Newswire Services	H	M	L	N/A
____ Quarterly Analyst Meetings	H	M	L	N/A
____ Annual Analyst Meetings	H	M	L	N/A
____ Mail Via Post Office	H	M	L	N/A
____ Teleconferencing	H	M	L	N/A
____ Executive Interviews	H	M	L	N/A
____ Quarterly Reports	H	M	L	N/A
____ Fax	H	M	L	N/A
____ Heads Up Phone Calls	H	M	L	N/A
____ 10K	H	M	L	N/A
____ 10Q	H	M	L	N/A
____ Newsletters	H	M	L	N/A
____ 10-Year Forecasts	H	M	L	N/A
____ 5-Year Statistic Books	H	M	L	N/A
____ Fact Books/Sheets	H	M	L	N/A
____ Forecasts	H	M	L	N/A
____ Special Events	H	M	L	N/A
____ Corporate Image Advertising	H	M	L	N/A
____ Speeches	H	M	L	N/A

11. What is your most-effective IR tool when communicating with analysts?________________________________

12. How well do you feel that you meet analysts' information needs?

Excellent Good Fair Poor

13. How timely are you in responding to an analyst's request for information?

Very Timely Timely Somewhat Timely Untimely

14. How would you rate your IR communications program's aggressiveness?

High Medium Low

15. How would your rate the overall effectiveness of your investor relations program?

High Medium Low

16. How is your IR program developed?

In-House By a Firm Combination

17. Which analysts do you pursue most for coverage?

Buy-side Sell-side Equal

18. Where is IR situated in your corporate structure?

____

19. What role, if any, does your corporate communications/PR department play in your IR efforts?

Highly Significant Somewhat Significant Not Significant

20. Where is your stock traded? ______________________________

21. What is your company's annual earnings? ______________________________

22. Please provide any additional comments regarding your IR communications with analysts here.

SAMPLE ANALYST LETTER

Date

Mr. John Doe
Analyst
123 Main Street
Anyplace, NJ 08000

Dear Mr. Doe:

My name is Randy Ryerson and I am a graduate student at Rowan University. I am writing a thesis on investor relations between natural gas IR professionals and industry analysts such as yourself. Kindly complete the enclosed survey and return it in the self-addressed, stamped envelope as soon as possible. Thanks in advance of your cooperation.

Sincerely,

P.S.

Your input is critical to my research. Please respond promptly.

Analyst Survey

Directions: Please circle or check the response that best represents your opinion. All responses are confidential.

1. How often do you communicate with IR professionals from natural gas local distribution companies?

   Daily   Weekly   Monthly   Quarterly   Annually

2. To what extent do you feel these communications are successful?

   Highly   Somewhat   Unsuccessful

3. How do you measure the effectiveness of these communications?

____

4. To what extent do you feel that most natural gas local distribution companies are committed to investor relations programs?

   Highly   Somewhat   Uncommitted

5. To what extent do you feel these programs succeed at communicating information you desire?

   Highly   Somewhat   Unsuccessful

6. How well do you feel you understand natural gas local distribution companies' financial positions as a result of their IR communications?

   High understanding   Somewhat of an understanding   Poor understanding

7. To what extent has deregulation affected the communication between you and IR people from natural gas local distribution companies?

   Greatly increased   Increased Somewhat increased   Decreased   Greatly decreased

8. Who do you prefer to deal with as the chief investor relations communicator? ___________________________

8a. In general, do you feel these individuals effectively communicate the information you desire?

   Yes   No

8b. Who do you normally speak with first for information about a natural gas local distribution company?

   Investor relations department   PR/communications department   CEO's office   CFO's office

9. Check the way you receive financial messages about natural gas local distribution companies. Then, rate your opinion of the effectiveness of the communication by circling H=High; M=Medium; L=Low; N/A=Not Applicable.

Communication	Effectiveness Rating			
____ Ad hoc communication	H	M	L	N/A
____ Annual Reports	H	M	L	N/A
____ News Releases	H	M	L	N/A
____ Direct Mail	H	M	L	N/A
____ Electronic Mail	H	M	L	N/A
____ Newswire Services	H	M	L	N/A
____ Quarterly Analyst Meetings	H	M	L	N/A
____ Annual Analyst Meetings	H	M	L	N/A
____ Mail Via Post Office	H	M	L	N/A
____ Teleconferencing	H	M	L	N/A
____ Executive Interviews	H	M	L	N/A
____ Quarterly Reports	H	M	L	N/A
____ Fax	H	M	L	N/A
____ Heads Up Phone Calls	H	M	L	N/A
____ 10K	H	M	L	N/A
____ 10Q	H	M	L	N/A
____ Newsletters	H	M	L	N/A
____ 10-Year Forecasts	H	M	L	N/A
____ 5-Year Statistic Books	H	M	L	N/A
____ Fact Books/Sheets	H	M	L	N/A
____ Forecasts	H	M	L	N/A
____ Special Events	H	M	L	N/A
____ Corporate Image Advertising	H	M	L	N/A
____ Speeches	H	M	L	N/A

(Over Please)

10. In your opinion, what are the five most-effective ways for natural gas LDCs to communicate their financial messages and positions to analysts like yourself:

   a. ____(most effective)

b. ____________________

c. ____________________

d. ____________________

e. ____________________

11. How well do you feel that your information needs are met by natural gas LDCs' investor relations departments?

    Excellent   Good   Fair   Poor

12. Overall, how timely are IR people from natural gas LDCs at responding to your information requests?

    Very Timely   Timely   Somewhat Timely   Untimely

13. How pro-active are the IR programs at most natural gas local distribution companies you follow?

    High   Medium   Low

14. How would you rate the overall effectiveness of the communications sent by investor relations professionals at most natural gas LDCs?

    High   Medium   Low

15. Do you prefer to deal with an LDC's IR firm or an in-house IR representative?

    Firm   In-house representative

16. Which do you represent?

    Buy-side   Sell-side

17. To what degree do you feel that IR representatives from natural gas LDCs understand your needs and time constraints as an analyst?

    High   Medium   Low

18. How many natural gas LDCs are you currently following? ____________________

19. How competent do you perceive most IR representatives from natural gas LDCs as compared to other industries?

    Highly competent   Competent   Somewhat competent   Incompetent

20. Do you feel that natural gas LDCs are doing enough IR communications with analysts like yourself?

    Yes   No

21. In general, are you satisfied with the content of the information you receive from the IR departments at natural gas LDCs?

    Yes   No

22. In general, do you feel that IR people from natural gas LDCs need to improve how they communicate financial messages to analysts?

    Yes   No

23. What is the biggest problem you encounter when you request information from a natural gas LDC's investor relations department?

____

____

____

24. Please provide any additional comments about your communications with the IR departments from natural gas LDCs.