

IR: SAFE AT THE HELM

Patrick Kiss

A crisis is exactly the time for fact and consistency, when the Investor Relations can steady the ship.

The current state of the capital markets is presenting wholly new experiences for many communications professionals in the listed real estate sector. The entire global economy has been in a pronounced tailspin for nearly two years. Many investor relations managers did not come into this, still young, profession until after the 2003 stock market slump, and a lot of the real estate companies now listed on stock exchanges entered the capital market spotlight during the market euphoria that reigned between 2005 and 2007.

In rising markets, investor relations (IR) is a job that brings pleasure each and every day. Since real estate share prices across Europe peaked in early 2007, however, most IR officers have had a tough battle on their hands. Whereas during the earlier period of euphoria investors took only a peripheral interest in results, they are now demanding evidence that companies are making money or will do so in the very near future.

It is no longer sufficient to simply provide coherent visions based on good strategies; these must be accompanied by a clear and concise equity story founded on realistic long-term assumptions. This story must demonstrate how future promises will be honoured and profitability achieved over the long term in order to justify investor confidence.



Investor's dream: solid financing and stable cash flows

The key topics at present are therefore refinancing, valuation, sustainable cash flow and tenant credit quality. Investors are asking for detailed information on loan maturities, financing banks, covenants, market yields, tenancy agreements and rent defaults in order to conduct their own stress tests to develop scenarios regarding the future security and associated valuation of the business model in question.

Regardless of whether a crisis emanates from the capital markets (external), as currently, or from within the company itself (internal) - and a combination of the two is also possible - the process is always similar. A crisis frequently announces itself at an early stage, and with appropriate awareness can rapidly be identified as such. There is no panacea for crisis management. However, deliberately ignoring a crisis or even attempting to cover it up is never the right

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option. The capital markets come down twice as hard and for much longer on a lack of responsiveness and an overly hesitant information policy. Once a problem has been uncovered, therefore, the situation should be analysed and presented as transparently and as quickly as possible in order not to pour oil on troubled waters.

This calls for descriptions of market structure and market position, as well as the range of products and services on offer. Together with the notes to the balance sheet and income statement, other key figures and background information on current trends, these elaborations serve to present the company's past and present status. Based on this information, the next step is to explain the causes of the crisis and set out the measures for overcoming it together with the relevant (interim)

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objectives. In such situations, the ideal is close involvement from a management team that conveys reliability, conviction and vision: crisis communications is a management matter.

In the listed real estate sector, two important key figures have now established themselves internation-

ally as particularly significant for analysts and investors: net asset value (NAV, the value of assets less liabilities - in the case of shares the NAV represents the intrinsic value) and funds from operations (FFO, the cash inflow from operating activities). The only disadvantage is that binding standards for calculating these two key figures have yet to emerge. However, the industry is working on harmonising them in order to improve comparability.

At the same time, the loan-to-value ratio (LTV, the ratio of interest-bearing loans to the market value of the real estate portfolio) which during the property boom years was meant to be as high and as rapidly flexible as possible in order to drive up equity capital yields through leveraged financing, is enjoying a real resurgence in its popularity as a key figure. See page 43. The perception of what constitutes an optimum LTV ratio has, however, been totally reversed.

Learning from the crisis

Even while the crisis is still going on, measures and control instruments should be defined that will help to prevent future problems or identify them at an early stage. The first steps of any realignment can be implemented; these will help maintain investor confidence during the initial phase of crisis management.

The following principles should be observed for all IR measures, both as a general rule and in times of crisis:

Regularity and consistency - In return for their capital, investors

expect regular information of consistent quantity and quality, even in times of crisis. At these times in particular, the key is not to damage the investor confidence that has been built up but to foster it.

Materiality - Only information relating to a company's activities or results should be published. Market data can also be helpful, as this makes it easier for investors and analysts to compare the company against its competitors.

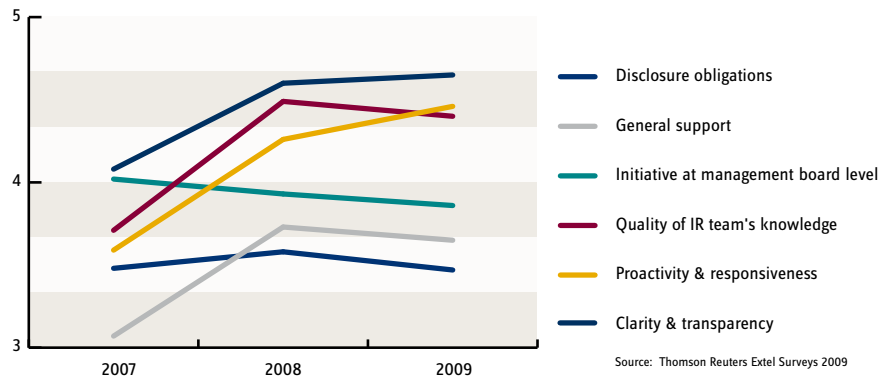
Completeness - Investors expect to be provided with factually correct, complete and fair information enabling them to carry out an independent and unbiased assessment of the company. This does not mean the full disclosure of all corporate data, as every company is entitled to keep certain things secret. The mantra is: "You don't have to write about everything, but you should be able to talk about anything."

Focus on the future - In addition to accounts of past activities, investors are first and foremost interested in their consequences for future business success.

Honesty and credibility - Two old proverbs express the IR balancing act perfectly: "He who pays the piper calls the tune" and "A liar will not be believed even when he speaks the truth". All information communicated should be truthful and presented fully, openly and without exaggeration. If news flow is formulated in supposedly protective and roundabout terms, bad news such as profit warnings has a stronger and longer-lasting impact on the share price.

Best Practice in Investor Relations

Changes in relative criteria weightings in the period 2007-2009
1 = unimportant, 5 = very important



Equality of treatment - All recipients of information should be treated equally in terms of the timing and content of the information provided, above all to avoid any conflict with the ban on the use and forwarding of insider information as laid down in securities law (fair disclosure).

Target group focus - The information relevant to investors is different to that required by other groups, such as tenants. They are interested not in the design of a new building, but in the rental income that it can be expected to generate. The information prepared should therefore be simple, understandable and geared specifically to the capital markets.

Timeliness of information - Investors are only interested in up-to-date information from first-hand sources. The faster companies report new findings, the better their shares perform. Once again, this

is equally true in both good times and bad. If a company misses the opportunity to comment promptly on new information from within its own four walls, then others will do so - but only after it has been filtered and rarely in the way the company would want. With this in mind, it appears to make sense for IR managers to be contactable at all times - much to the delight of Apple and BlackBerry backers.

Cost-effectiveness - It is in the interests of both the company and its investors for communications costs to be kept to a minimum and geared to cost/benefit considerations.

One company, one voice - Company representatives should always coordinate financial and corporate communications to ensure that the overall communications strategy remains coherent and the company projects a uniform image.

According to the recent Excellence in Investor Relations study conducted by Thomson Reuters Extel Surveys, investors and analysts set great store by additional 'soft' factors, as illustrated in the chart above.

'Clarity and transparency' have always been of fundamental importance, and indeed have become even more relevant during the crisis. The second most important criterion, 'proactivity and responsiveness', clearly demonstrates that investors do not look kindly on companies that simply hunker down when the going gets tough. Capital market

participants want vision and proactive communication. By contrast, the other criteria have declined in relative importance.

IR managers who plan strategically and for the long term take these principles and best practice recommendations on board and have a communications policy that is prepared for a downturn. Technical (address databases, registers of service providers) and formal (to-do lists, defined coordination processes) precautions pave the way for the most important element of investor relations: content.

IR is about managing expectations

The target groups served by IR professionals expect consistency in every respect. In addition to the straightforward duty to provide information, managing expectations is also about pursuing a clear line in investor relations. Investors would not appreciate it if on top of bad results they also had to deal with a breakdown in their communication-information relationship with the company. Rebuilding lost confidence is an extremely long and laborious process. By contrast, the increased risk premium triggered by results that are significantly at odds with analysts' expectations can be ironed out over the medium term. Investors do not so much resent the crisis itself as the lack of consistency. Expectation management should therefore focus on controlling the formal and content-related demands of financial communications. 📌

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