The *Informed* interview: up close and personal with Brian Rafferty

John Gollifer talks to **Brian Rafferty**, CEO of Taylor Rafferty, about the key developments in IR over the past decades and the challenges that lie ahead.

The IR Society recently had the pleasure of talking with Brian Rafferty, a long-standing seer and champion of the IR industry. We were keen to get an international perspective on the topics of the day. What's changed in the market and what's IR got to do with it if we are thinking IR2020?

Brian opened candidly: "I have the feeling that at best, we are only half way there in terms of what the practice and the profession can achieve. This is pretty much what gets me out of bed in the morning!" From our discussion, it soon became apparent that there are numerous opportunities, not least for the aspiring IRO. Brian added: "I think there's still huge potential for growth in the industry and in the IR role."

We considered the view of IR from where Brian sits in the USA. He made a telling observation that a cross-border view can help shape IR and adds another dimension in that it is easier to compare and measure success. For example, the ability of UK and European companies to analyse the share register and determine beneficial ownership varies and allows for cross-market comparisons. Above all, we got a clear message that goal setting is key and it is possible to change your share register and demonstrate the value of this to your company management. Brian argued that ironically, this is maybe more difficult to do in the US where there is a larger captive market and perhaps this can be taken for granted.

Brian added: "I also think commoditisation of information has lulled practitioners into complacency that might not be justified. Having the information makes them feel comfortable and sometimes it replaces the real answer which is to set goals of how things should change over time in a direction that helps the company. Using this information then serves to help measure the success of your IR programme." The opposite rings true and as Brian pointed out, it can be frustrating to see IROs lose their way in the process of information gathering without any sense of how to use it.

A strategic tool

We touched on the use of lower disclosure thresholds and Brian concurred that this is an important part of the process of improving transparency and should naturally be supported to further develop the IR profession. He also sees the quality of IR still improving and it is heartening to observe management recognising the importance of the role and the value created for companies.

Yet there is more to be done given Brian regards the compliance imperative as still overriding the recognition by management of the strategic value creation of IR. "It is the responsibility of the board and senior management to the shareholders to run IR in a way that creates maximum sustainable value of a company over time. Essentially IR is in my view the most strategic tool in the company's capital market toolbox. In my experience, it is necessary to take a longer-term horizon, say at least 18-36 months to begin to see the value of IR and there is no more effective tool. That is your IR 2020"

Brian went on to say that if he had a criticism of the profession, it is the lack of advocacy outside the role to other key

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UP CLOSE AND PERSONAL

- **Commoditisation of information has lulled practitioners into complacency.**
- **Sometimes IR people must fight all the way to board level.**
- **The UK is leading the charge in the name of transparency.**
- **The board must realise the upside potential of the IR process of capital markets interaction.**

influencers. "Sometimes you do need to fight all the way to board level and say it as it is, look, this is what we can do!"

This tied in with a discussion of the internal aspects of the role, including getting sufficient resources and budget to do the job properly. Brian referred to the syndrome of the 'emperor's new clothes' to get across the point of hierarchy and vested interests within an organisation and the inevitable in-fighting as to who should do what and who should be running the show. We all know that it should be IR but it can be a bun fight – yet you don't want to end up on the losing end with a lack of resources to do your job.

Seismic pressure

This was a timely segue to the question of external resourcing of IR and what the impending regulatory changes mean for IR. On the one hand, the buy- and sell-sides too are under pressure. On the other hand, this should mean an opportunity for IR to step up and take on more of the supporting roles, from investor targeting to following up directly with investors to establish the all-important relationships. But again, we can't do it all, particularly smaller companies, so we will need more creative and thoughtful ways to address our needs, including use of independent research and industry data.

Brian points out that, "if you want to fight for attention, which you must do, competing for capital, then there has to be insight and the fun thing about IR is trying to find a way to highlight what makes a business run. What can I say, how can I say it to get the buy-in of the audience?"

Brian thinks that the UK approach to unbundling corporate services and the associated fees is critical and that the UK is leading the charge in the name of transparency. Now that's all good for IR and the profession. According to Brian, "the UK is looking at the most clear and methodical way. Whether they crack the code to create more efficiency and transparency in the process, I don't know. But I hope so and I think the UK has the best shot. If the UK succeeds, it will be very hard for the rest of the world not to follow and it will shake up the existing order – it's a seismic pressure."

He added that technology is the other driver for levelling the playing field and enhancing transparency. Brian's hope is that this helps to bring back some of the belief, accountability and trust into the system, something that has been sadly lacking in the public perception.

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We returned to considering measures of success for IR and agreed that the most important one is to establish what is the make-up of your shareholder base and your capital markets following, that is, the people that follow you – potential buyers, sellers, interlocutors, analysts. Brian concluded that: "it is essential to establish very clearly and with some precision what is the optimal structure for that market place you are creating, that best aligns with the company's corporate strategy.

Critically if you don't have that goal, it is very difficult to see the value but also very difficult to apportion resources. How do you know what you are doing and if it's successful or unsuccessful?" Taking the definition of your capital market further, Brian added: "it is surprising to see the number of companies that don't look at their contact database outside of the actual register. The people that are on the periphery that are there to purchase shares – that is your capital market – and the lack of analysis of the make-up of the potential holders is a basic mistake and should be of enormous interest to IR."

A magic wand

We ended the interview by giving Brian a magic wand, as if he needed it. He responded in characteristic fashion: "I prefer a magic wand because I travel so much! The key, and this is why the UK is so critical to the global outcome, is that there was a narrative that US companies' IR was better than non-US companies. In my experience, the exact opposite is true and that is because non-US companies have to fight for attention and work in a much more competitive system and learn to adapt to ways to do things in different markets. US large caps are sitting on a captive audience. The nature of the IRO in the non-US space in general is more attuned to change than in the US.

"Also in the UK the way that corporate governance plays out through a unique mix of regulatory and societal pressure in general is more healthy than in the US. The US is bigger, more spread out. Chair and CEO combine roles. If we wave my magic wand, I would like the CEO, CFO and board level of UK companies to be inspired by a combination of doing the right thing, common sense to see the value that can be created by IR. It becomes accepted that this is the way things need to be done.

"There are UK companies that are doing this already – fantastic work. It hasn't reached critical mass at the senior level but we are getting closer to that from a combination of IROs becoming CFOs and CEOs. Moreover, we need the board to realise the upside potential of the IR process of capital markets interaction.

"Right now, I think boards are focused on the downside protection – fulfil one obligation, a perception, ensuring shareholders are happy. It needs to be why is our stock trading at 17x multiple when our peers in the US are trading at 22x multiple? What can we do to change that?

"That thinking is not prioritised at the board level. And that is what I mean by seizing the upside potential. The board needs to start saying, what do we need to do to seize that value? Of course, we need IR! And IR should come to the US to gain access to the full US institutional market.

"For almost any sized company, it is possible if they can analyse the scope of the opportunity and figure out the proper resources to seize it. If it is in their investment parameters, investors are going to give you a hearing. The sky's the limit – you talk to UK companies and the IRO realises they are missing chunks of the market.

"That's what I mean by the emperor's new clothes! You need to see beyond this, that's IR, the best investment a company can make but your boss needs to understand this and what to do about it." ■