

Information Asymmetry

Capital Attraction

Capital Raising

Ethics

Today's Agenda

- A. Information Asymmetry  **Disequilibrium**
- B. Disclosure
 - *Mandatory*
 - *Intermediary*
 - *Voluntary*
 - ❑ Orchestrating Corporate Communication **Efficiency**
- C. Capital Attraction  **Effectiveness**
- D. Ethical Issues  **Responsibility**

Introduction

Definitions-Biases-Understanding

**Everybody at all times is
a producer-receiver-transmitter & abuser of
INFORMATION**

Smart decisions based on better & more INFORMATION

Information & Intelligence

Information

Information consists of all clouds above you

- **Unprocessed or raw data**
- **Freely available**
- **Everyone has access to Info**
- **Public Info (i.e. internet)**



Intelligence

Intelligence is the cloud that

- **Brings you rain**
- **Requires Interpretation**
- **From Public to Private Info**



Information & Decision Making

Information



Intelligence



**Decision
Making**

Information is vital for

- *Decision Making*
- *Sound Judgement*
- *Long-Term Planning*
- *Tactics & Strategy*
- *Daily Decisions*
- *Plus...*

Information Players & Agents				
Analogies				
FAMILY	COMPANY	GOVERNMENT	Information Jobs/Titles	Info Receivers & Transmitters
Father Mother	CEO CFO	PM	Information Insiders	Communication Officers Spokespersons Investor Relations Officers (IROs) Other buffer Info Officers
	COO BoD	Advisers		
	Middle Managers	Ministers Bureaucrats		Media & Journalists Analysts
Children Older Younger	Shareholders	MPs	Info Targets	Targeted-Receivers
Relatives	Employees	Voters - Public - Demos		

Information Process Paradigm (capital markets)

Company Insiders

Market Intelligence

Info Acquisition

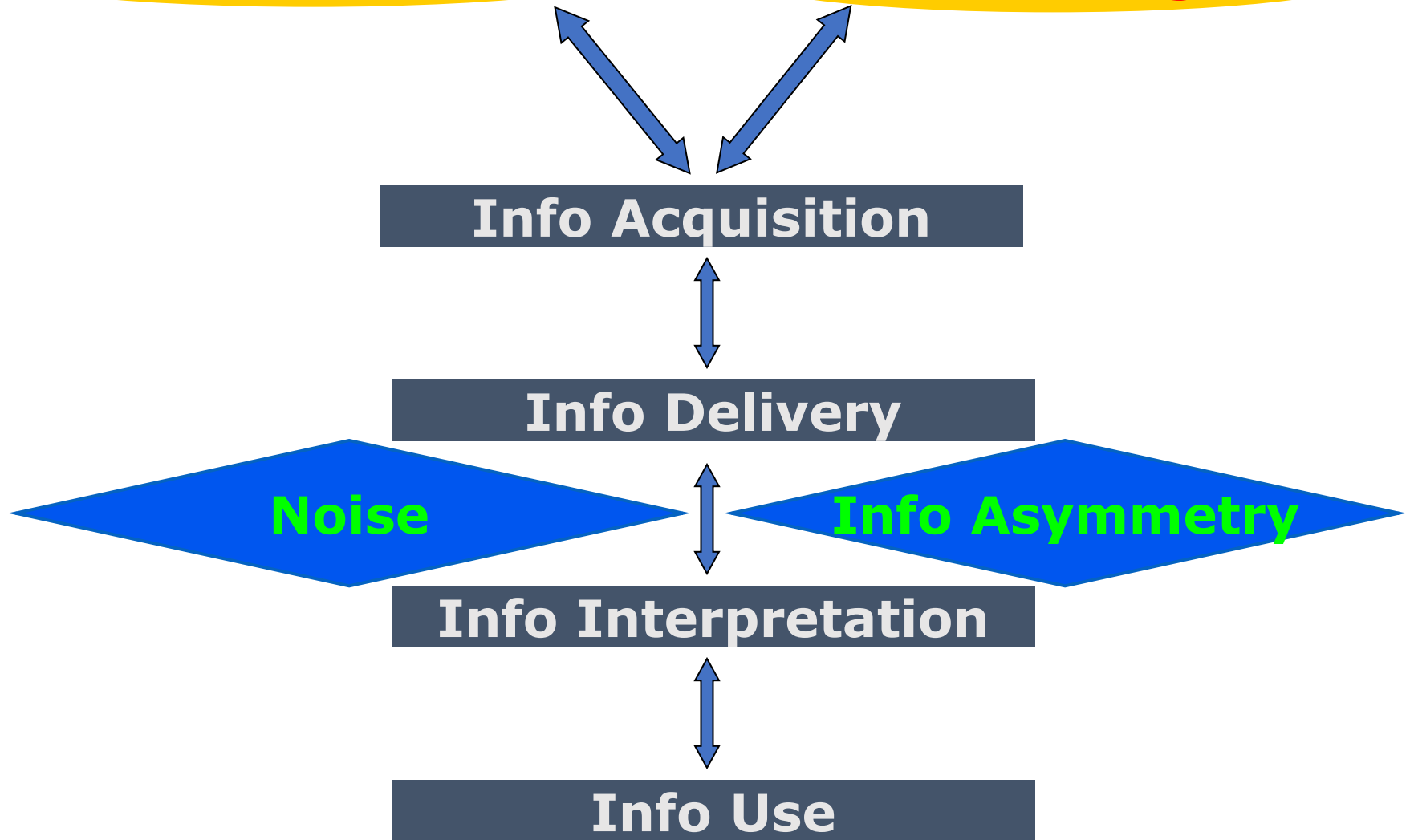
Info Delivery

Noise

Info Asymmetry

Info Interpretation

Info Use



Information Asymmetry & Information Gathering

- Who has visited London Heathrow Airport or travelling via Heathrow?
- Did they pulled you out to check meticulously your bags, in detail?
- Why they do this please?
- For Safety or for Security?
- **Heathrow tries to find what you know, and they do not.**



What's Information Asymmetry?

Facts & Examples

- You know more *about Facebook, Instagram, ...*
- I know more ... *on Capital Raising*

- **Children withholding information from parents**
- **We withhold information from others on our affairs**

- **Filling Income Tax**
 - *a battle: individuals vs. government*
 - *a battle: companies vs. government*

- **Wars based on asymmetric information**
- **Governments spend billions to collect information (*i.e. CIA*)**
 - **Firms have better information than regulators**
 - **Information Disclaimers**

My Information Disclaimer

- **The ideas presented here will inspire some of you to learn more.**
- But you will only learn more when you come up with individual (personal) studies.
- **I am not suggesting that I will give you, within a limited time margin of a lecture, all the innumerable details that are infinitely complex.**
- What I can do is try to show you some great lines to help you with.
- **In a lecture, only the main general ideas can be presented, and of these only a few clear conceptions can hold the minds of the listeners.**
- **No lecture can replace your individual study.**
- Those who strive to learn by attending lectures alone will never gain anything more than superficial knowledge.
- Only a serious scholar can, with vigorous efforts, overcome the difficulties of an issue.
- If my ideas are of interest to you, you need to study these ideas to become better & more theoreticians, professionals and practitioners.

Today's Agenda

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- D. Ethical Issues  **Responsibility**

Experienced Practitioner

Presentation Thesis

■ Information Asymmetry

Creates inequalities & imbalances

■ Disclosure

Bridges the info gap & Brings equilibrium

■ Capital Raising

Increases production-development & Income equality

■ Ethics

Motivates voluntary action & Eliminates excesses

Presentation Bias

➤ **Voluntary Disclosure & Proactive Corporate Communication**

- Increases Visibility-Awareness-Brand
- Enhances Strategic Sustainable Competitive Advantage

Voluntary Disclosure on

Nick Demos

Expertise	▪ Global Strategic Marketing ▪ Fundraising & Raising Capital for Companies ▪ Voluntary Corporate Communications & Disclosure
Work	▪ 30 years in equity capital markets & global business ▪ Worked in: NA, Europe, SE Asia, Africa, MENA ▪ Based in Canada, Cyprus, Greece and Germany
Education	▪ PhD: Heriot -Watt University (Edinburgh) ▪ MA, DSS, MBA: York University (Toronto) ▪ BA: Piraeus University (Athens)
Research	▪ <i>Discretionary Disclosure & Information Asymmetry</i> ▪ <i>Global Firm Visibility & Strategic Promotion</i> ▪ <i>Military Strategy</i>
Publications	▪ Book: “Effective Corporate Communication”, 2008 ▪ Book: “1071–Strategic Defeats & Decline of Hellenism”, 2015 ▪ Book: “636–The Beginning of Hellenism Shrinkage”, 2015 ▪ Academic Papers & Media articles

Findings from Research and Practice

a) Research

- **Research data since 1996**
 - Hard and soft data gathering
 - Qualitative ground research (due to inside information)
 - Questionnaires, Surveys and Interviews
- **Monitoring Senior Executives & Equity Capital Market Players**
 - Statistics, Attitudes, Opinions, Perceptions, Motivations, Agendas, ...
- **Capital Markets**
 - UK, Cyprus, Greece, Germany, Canada, USA, ...
- **Target Audience:**
 - Top Management: BoD Chairman, CEO, CFO (Insiders)
 - Fund Managers of Mutual Funds, Pension, Hedge, Private Bankers, etc
 - Financial Analysts: Sell side and Buy side CFAs
 - Traditional & Digital Media

b) Practice

- **Participation 29 years in**
 - *Group Presentations*
 - *One to One meetings*
 - *Investor Conferences*
 - *Analyst Presentations*
 - *Conference Calls*
 - *Roadshows*
- **Talking to**
 - *Co-workers*
 - *Industry specialists*
 - *Intermediaries*
 - *Fund Managers*
 - *Researchers*
- **Travelling**
- **Listing companies in different exchanges**
 - NYSE,TSX, London, Frankfurt, ASE, CY

More sources...

- **Offering, Relationship and Proactive Roadshows**
- **Group and One on One meetings**
- ◆ **Telephone queries**
- ◆ **Feedback on analysts' reports**
- **Conventional Mailing (Fax)**
- **Digital Mailing (Email)**
- ⤴ **Conference Calls**
- ⤴ **Social Media**
- ⤴ **Viber – WhatsApp**
- **Press releases**

Effort to answer some questions in

EFFECTIVE CORPORATE COMMUNICATION

and
Voluntary Investor Relations

NICK DEMOS



Athens 2008

Book proposes

a strategic communication roadmap

for companies & organisations which struggle
to get attention from

- ▶ global institutional investors
- ▶ private wealthy investors
- ▶ retail investors

The book is useful for

- ▶ IROs
- ▶ CEOs
- ▶ CFOs
- ▶ Investors
- ▶ Fund Managers
- ▶ Sell – Side Analysts
- ▶ Buy – Side Analysts
- ▶ Brokers
- ▶ Media
- ▶ Bankers
- ▶ State Officials

Information Asymmetry

A. Information Asymmetry

- Disclosure

- ❖ *Mandatory*
- ❖ *Intermediary*
- ❖ *Voluntary*

- **Orchestrating Corporate Communication & Investor Relations**

- Capital Attraction

- Ethical Issues

Information Asymmetry

❑ Business:

- The essence of Competitive Advantage
 - The essence of making money

❑ Countries:

- Intelligence agencies (*CIA, etc.*)

❑ **Insiders (Agents) have more and better information**

❑ Corporations-internally & Governments-externally try to:

- Align motivations, incentives, actions and benefits
- Monitor and control moves & practices

❑ Provokes ... measures & regulations:

- Securities and Exchange Commission (SEC)
- Generally agreed-upon accounting principles (GAAP)
- Codetermination law (Mitbestimmungsgesetz in German law)
- Equivalent Information

Information Asymmetry ...related issues

- **Perfect Information** (*Classical Economic Theory*)
 - ✓ *Everyone has the same information*
 - ✓ *Basis of many Economic models*
 - **Asymmetric Information** (*the Problem*)
 - ✓ *One decides better than the other*
 - ✓ *Because has better & more information*
 - **Imperfect Information** (*the Motivation*)
 - ✓ *Misinformation*
 - ✓ *Fake News*
-
- **Agency Problem** (*conflict of interest*)
 - **Adverse Selection** (*sellers have info that buyers do not have*)
 - **Moral Hazard** (*you benefit but others bear the risks & costs*)
 - *Life Cycle Hypothesis*

and ... **Noise** ...

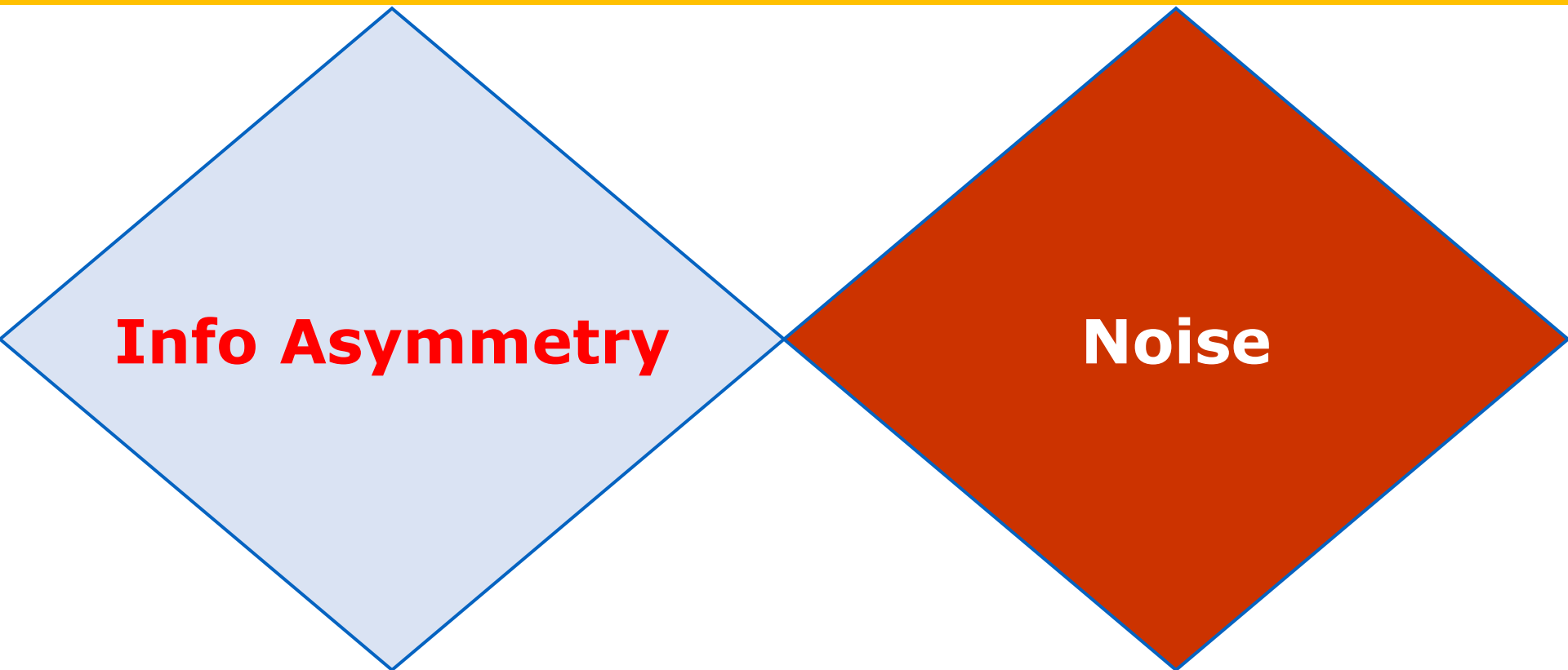
Noise refers to anything that **interferes with the communication process**

Noise can **disrupt the communication process at any point**

Noise affects **critically the effectiveness of communication**

Noise distorts the quality & credibility of communication...

The Ugly & **the Bad** ...



Info Asymmetry

Noise

Info Process & Info Asymmetry (Capital Markets)

ACQUISITION
(of information
from other
departments
and sources)

COMPANY INSIDERS
(holders of information)

INTELLIGENCE
(from the market)

INVESTOR RELATIONS

⇓
DELIVERY
of information

(tools and means to transfer and convey information)

Intermediary information

Noise - misinformation

Other information

Information asymmetry

ACCEPTANCE
of information
(reliable information
to get attention and persuade)

⇓
INTERPRETATION
of information

⇓
IMPLEMENTATION
of information

(by information users - buying or retaining stock by investors)

Battle for Info Symmetry *(in the Capital Markets)*

Agency Issues

Conflicting Roles

- Shareholders **vs.** Managers
- Owners **vs.** Shareholders
- Institutional **vs.** Retail Investors

Noise Issues

- How insiders use information?
- How informed market players are being informed?
- How Journalists set the communication agenda?
- How everybody uploads “FAKE NEWS”

Orchestrating

multiple

Communication Tools & Channels ...

... and mastering

artistically & technically

the sincere, theatrical and cosmetical

function & act

of

Disclosure ...

Disclosure

A. Information Asymmetry

B. **Disclosure**

- ❖ *Mandatory*

- ❖ *Intermediary*

- ❖ *Voluntary*

- **Orchestrating Corporate Communication & Investor Relations**

- Capital Attraction

- Ethical Issues

Disclosure

... **controlling & revealing information**

and especially

Private Information

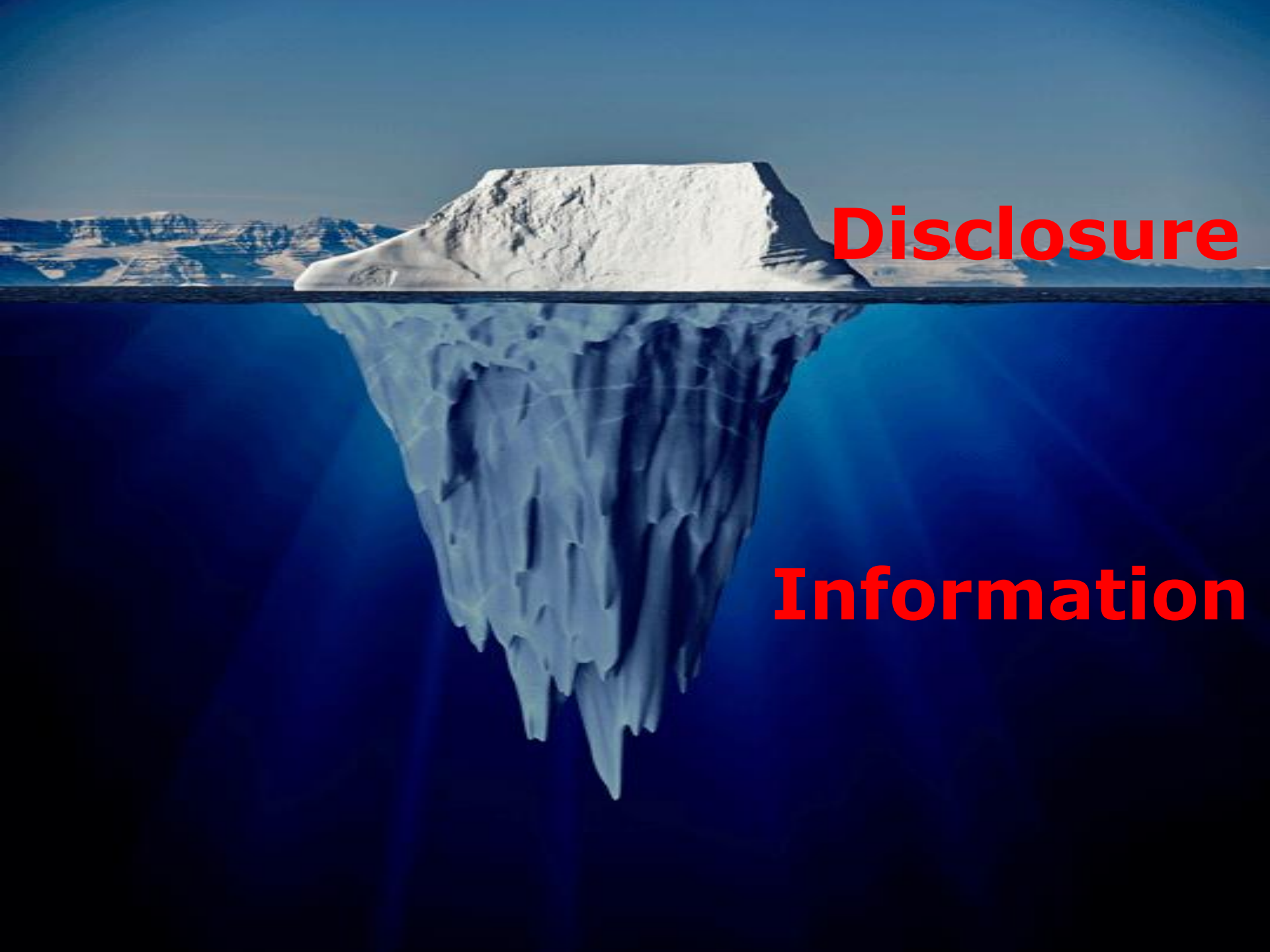
... **Disclosure** is

the act of releasing all

relevant company information

that may influence

a financial & investment decision.



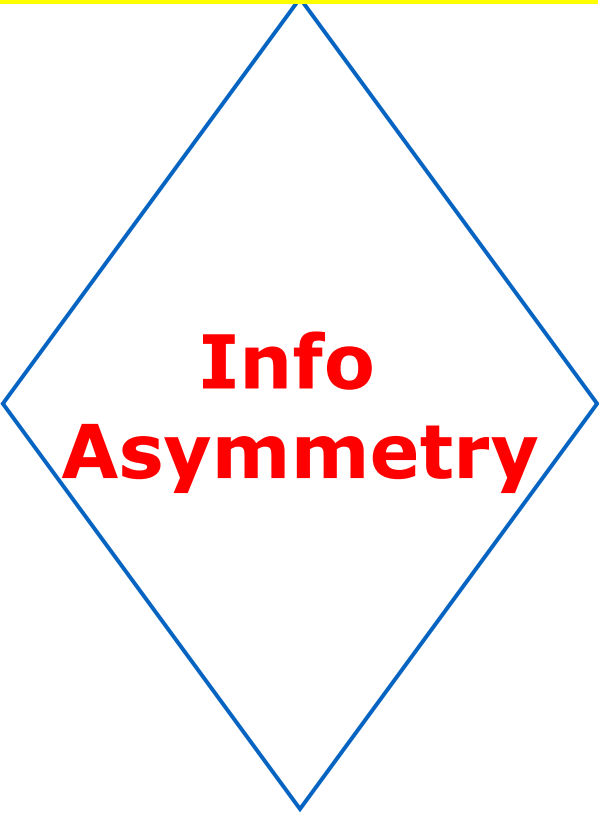
Disclosure

Information

The Good, the Bad and the Ugly ...

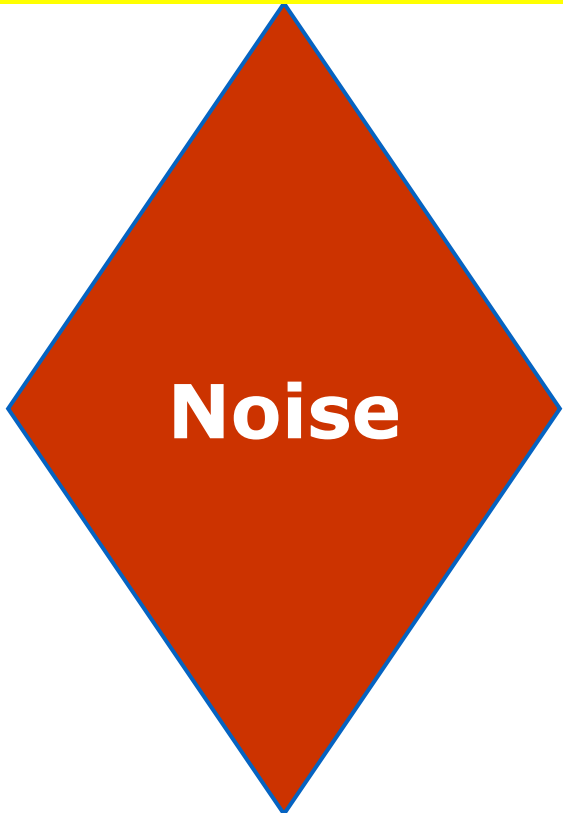
The Ugly

**Info
Asymmetry**



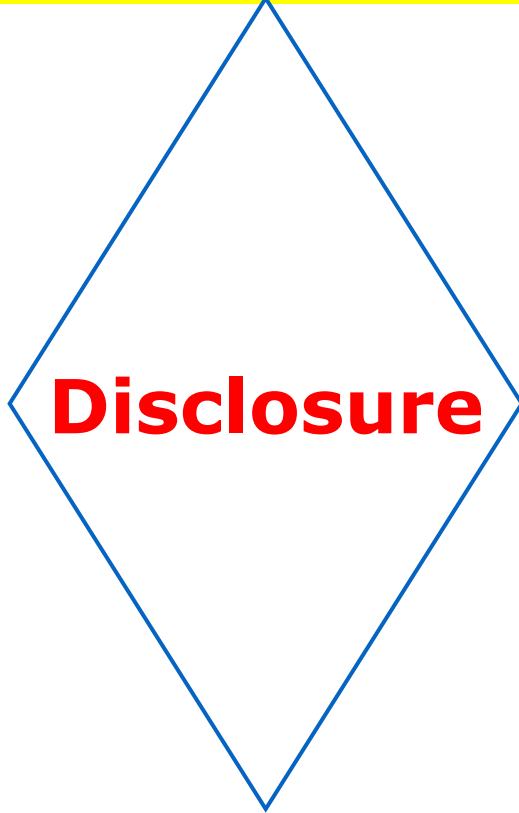
The Bad

Noise

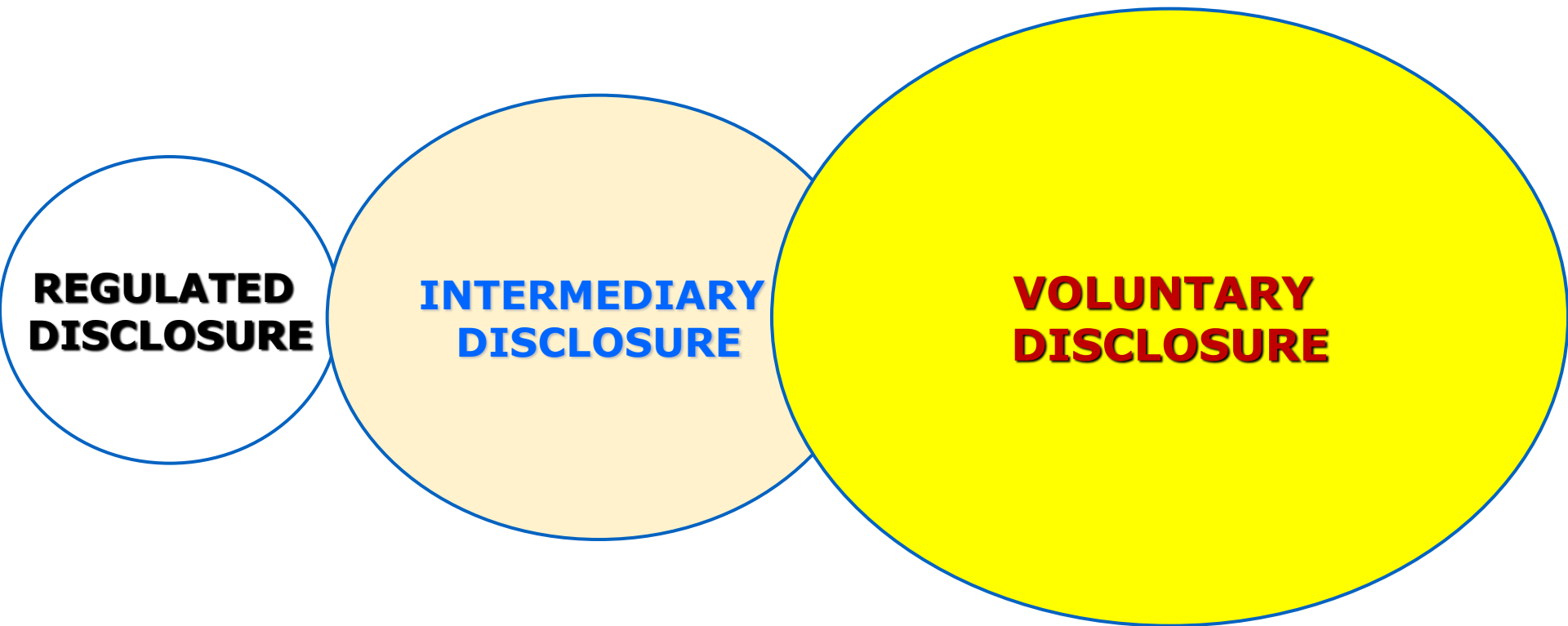


The Good

Disclosure



Three main types of Disclosure



i) Regulated or Mandatory Disclosure

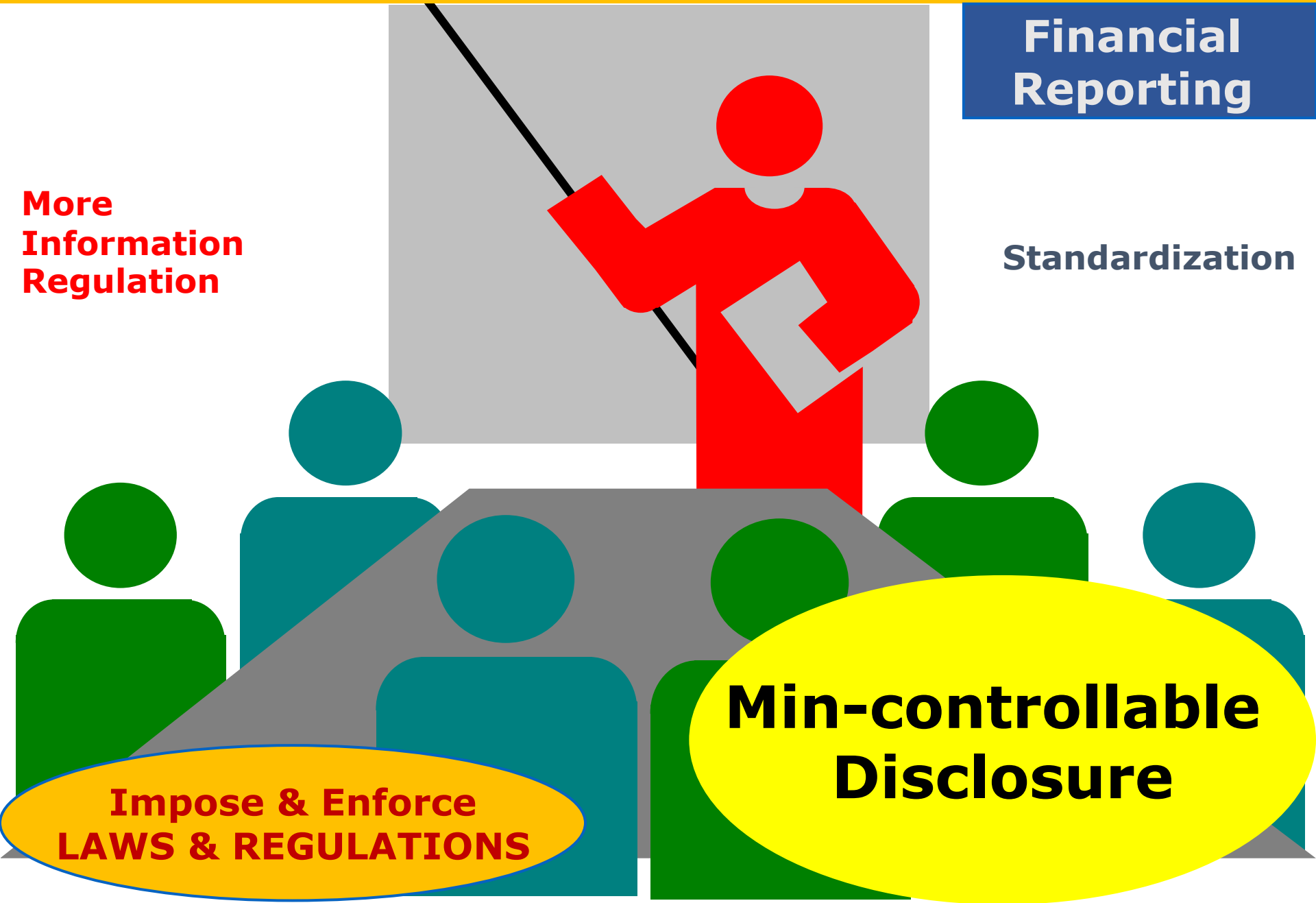
**Financial
Reporting**

Standardization

**More
Information
Regulation**

**Min-controllable
Disclosure**

**Impose & Enforce
LAWS & REGULATIONS**



Mandatory Disclosure in Cyprus & CSE

Disclosure requirements in Cyprus might result from the following laws:

- Law on Transparency Requirements (Securities admitted to trading on a Regulated Market) - Law 190 (I) 2007.
- Law on Insider Dealing and Market Manipulation (Market Abuse) - Law 116(I) of 2005.
- The Cypriot Banking Law.

The Council of the Cyprus Stock Exchange (CSE) at September 2002 issued the **Code of Corporate Governance** for the Cyprus Stock Exchange.

The aim of the Code is to strengthen the monitoring role of the Board of Directors, to protect small shareholders, to adopt greater transparency and to provide timely information, as well as to sufficiently safeguard the independence of the Board of Directors in its decision - making.

The Code is voluntary for the listed companies.

Listed Companies have an obligation to include in their Board of Directors' annual report to shareholders, a report on corporate governance as follows: The company should state in the first part of the report whether the principles of the Code are being implemented. The company should confirm in the second part of the report that it complies with the principles of the code and, in the event that it does not, should give explanations as to why not.

<http://www.cse.com.cy/en-GB/regulated-market/listing/corporate-governance/>

Corporate Governance - Protect Investors



Mandatory - Regulated Corporate Disclosure

Mandatory IR Programme:

- * Law 2190 & corporate laws
- * SEC regulations
- * ASE laws & Regulations
- * Market Abuse
- * Directives from EU, OECD, etc
- * Social Corporate Responsibility (ERIS, FTSE4GOOD)
- * Law 1036

Information:

Company:

Strategy
Financial Results
Quality of Management
Operational Efficiencies
Forward-looking
Soft Information
Non-Financials
Intangibles (knowledge, innovation, etc)
Price Sensitive Information

Target Groups:

Global Fund Managers
Type of FMs
Geographic FMs
Greek FMs
Targeted Cities
Profile of FMs
Retail Investors

Constraints:

- * IR Budget/Cost
- * Understanding IR by top management
- * Market conditions
- * Global parameters
- * Greek parameters
- * Use of Channels for Public Disclosure
- * Private Disclosure

Processing
by the
Passive IRO

Aims
Objectives

Decision
Process

Shareholders & Potential Buyers:
Fundamental Buyer
Strategic Buyer
Technical Buyer
Tactical Buyer
Pension, Mutual FM

RESULTS

Role of the IRO or Communication Officer

- * Experience/Perception
- * Talent
- * Strategic Thought
- * IR Programme Implementation
- * Strategic Thinker

(Feedback)

“NOISE”

Possible sources of bias & interference

External:

- * Inadequate intelligence sources
- * Competition by other companies
- * Misinformed Intermediaries (such as sales people, FAs, brokers,...)
- * Short Sellers
- * Market bias

Internal:

- * Stress
- * Stamina
- * Strategic Inability
- * Incompetence
- * Inflexibility
- * Company's Politics

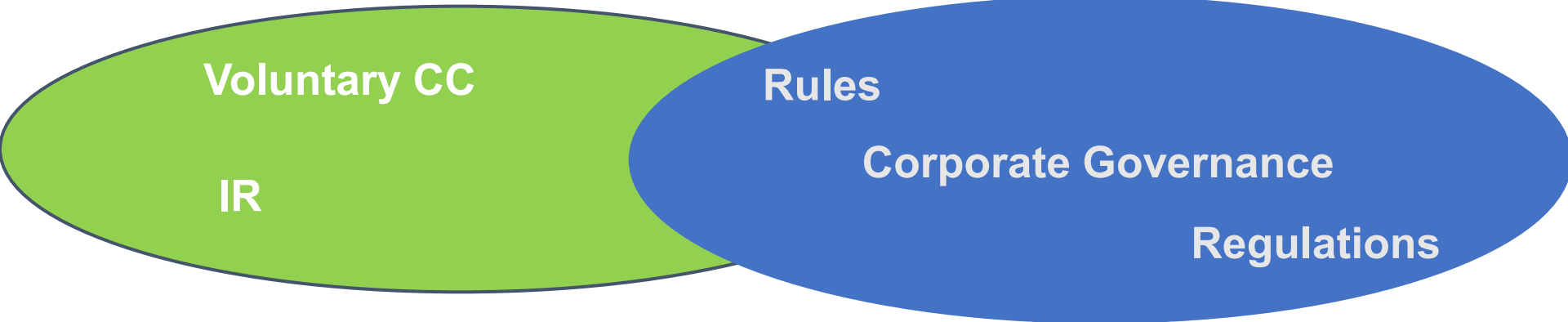
Figure 3.1: Regulated Corporate Disclosure Paradigm (Information is regulated by Law & SEC)

Is more Regulation Counterproductive?

1999



2009



2019



ii) Disclosure via Intermediaries

Agent Information

**Role of
Brokers, Media, Analysts**

**Media inform better
Small Shareholders
& Investors**

**Analysts inform mostly
Fund managers &
Large Shareholders**

**Info Acquisition
via smart questions
to the Top Management**

**Issues of
perspective
& bias**

**Semi-controllable
Disclosure**

Corporate Disclosure via Intermediaries

Mandatory requirements:

- * Law 2190
- * Presidential decrees
- * CMC regulation (blue book, 5/204)
- * ASE guidelines and star system
- * Directives from EU, OECD, etc
- * Law 1036

Information Insiders:

Company Info:

Strategy
Financial Results
Quality of Management
Operational Efficiencies
Forward-looking
Soft Information
Non-Financials
Intangibles
Price Sensitive Information

Controlled by:

Chairman of the BoD
CEO
CFO
COO
Marketing Manager
PR Director
Union Members
Treasurer
Other Managers

Company's Characteristics:

- * IR Budget/Cost
- * Understanding IR by top management
- * Organizational issues
- * Integrated communication policies
- * Official media spokesperson
- * Use of direct private disclosure by the IRO
- * Mandatory vs. Private Disclosure

INFORMATION INTERMEDIARIES

Role of the IRO & Spokesperson

- * Perception
- * Politically motivated
- * Union policy
- * No coordinated effort
- * Member of the BoD

Processing by the Media and FAs

Sell-side Analysts

IROs' Explanation

Shareholders-Buyers:

Fundamental Buyer
Strategic Buyer
Technical Buyer
Tactical Buyer
Pension, Mutual FM

RESULTS

"NOISE"

Possible sources of bias & interference

External:

- * Misinformed traders and sales people
- * Competition by other companies
- * Misinformed and multiple firm's spokespersons
- * Politics and corporate finance by major banks
- * Short Sellers
- * Market bias

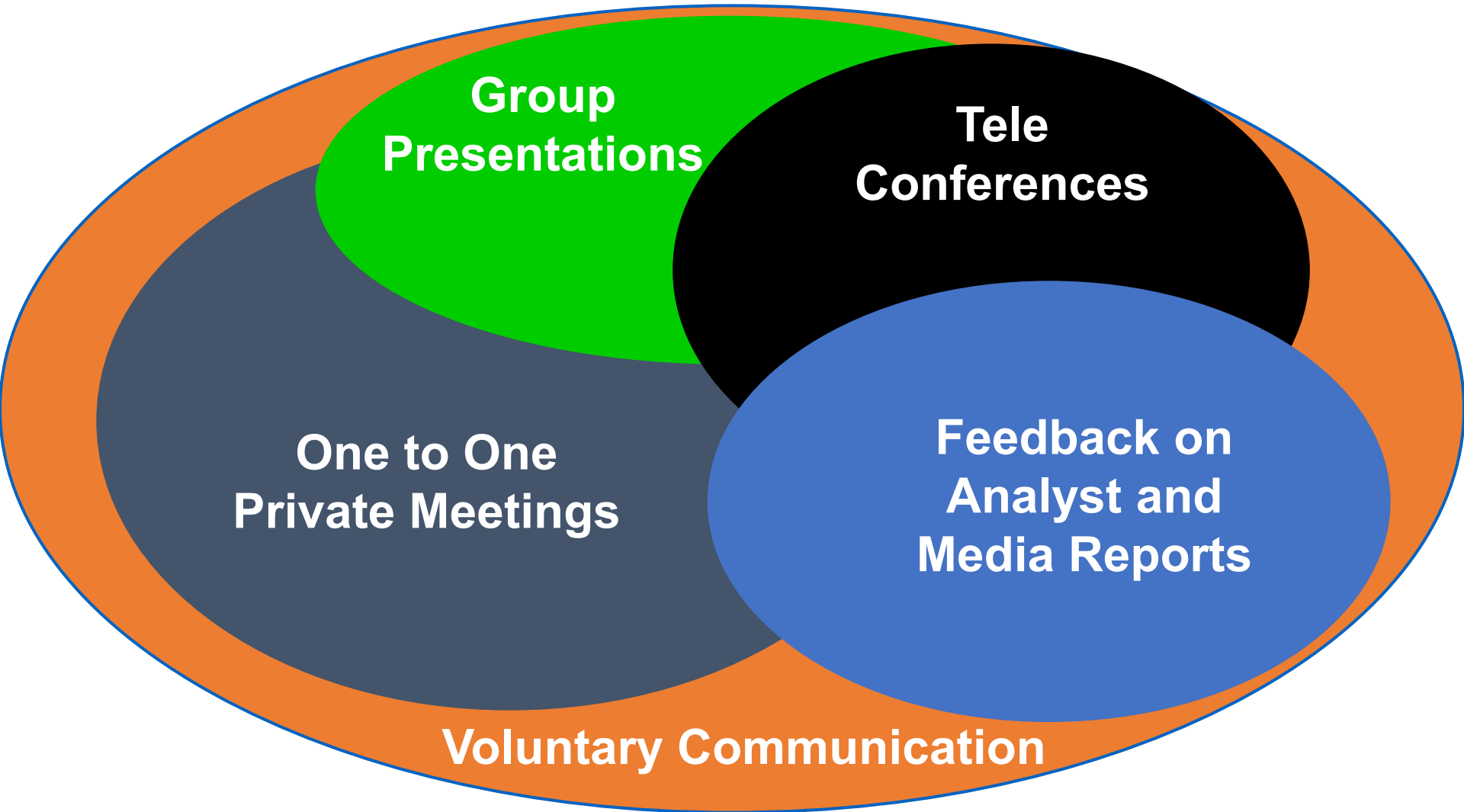
Internal:

- * Stress
- * Stamina
- * Strategic Inability
- * Incompetence
- * Inflexibility
- * Company's Politics

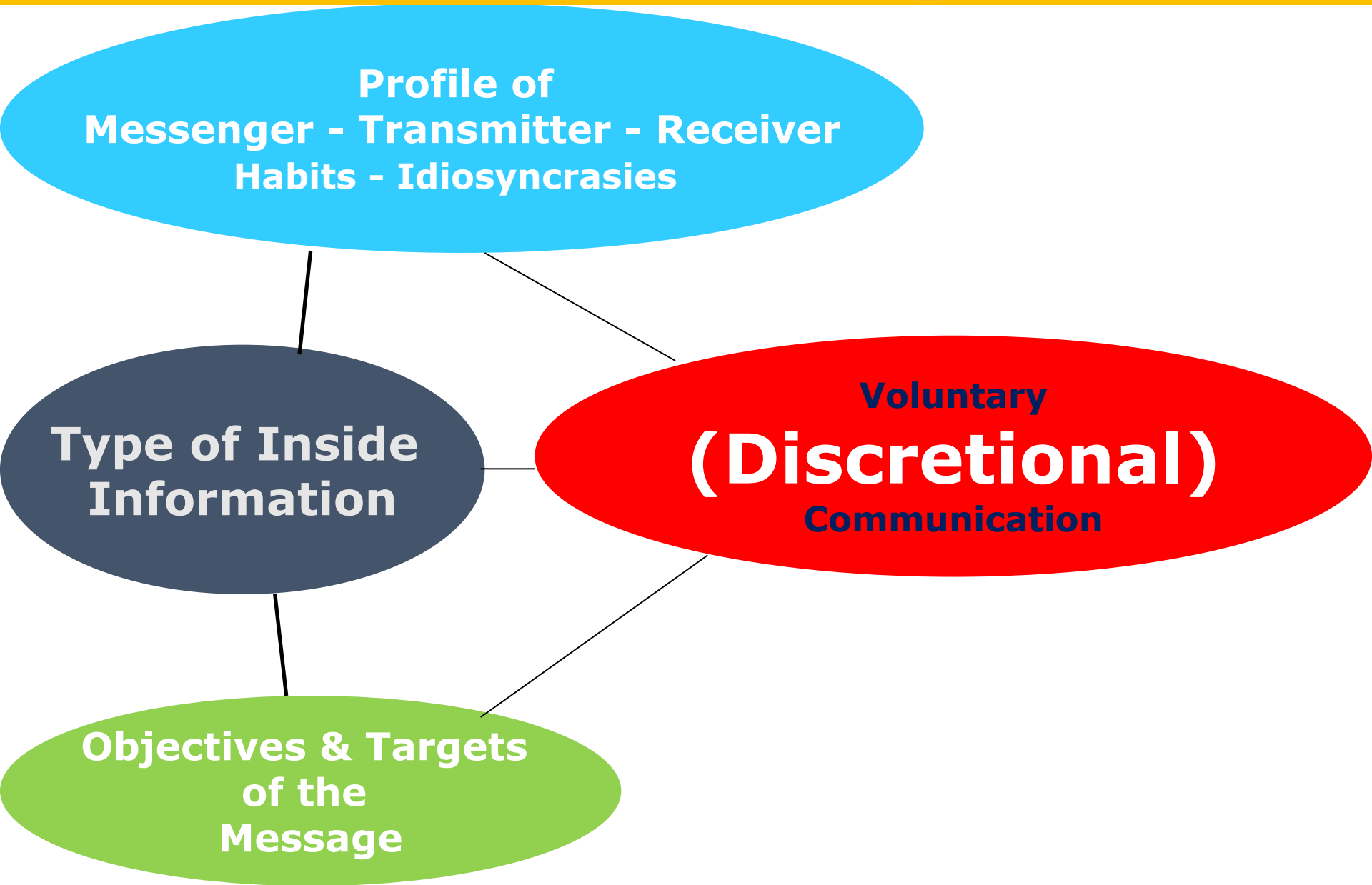
Figure 4.1: Corporate Disclosure via Intermediaries Paradigm (as processors of information)

iii) Voluntary Disclosure

Company Insiders provide information beyond requirements ...



More than the Information provided ...



Voluntary Corporate Disclosure

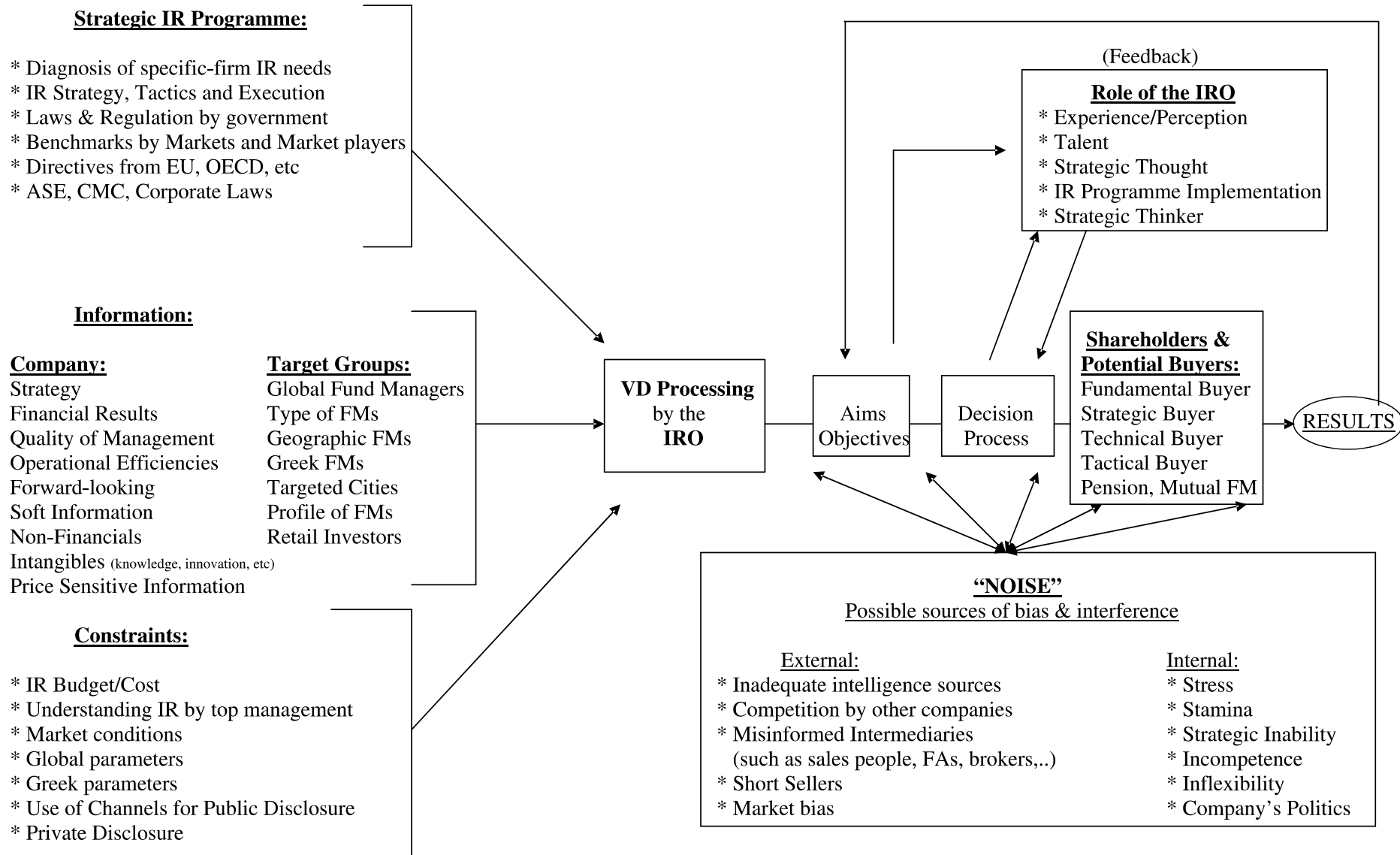


Figure 5.1: Voluntary Corporate Disclosure Paradigm (Information is controlled and distributed by Top Management and IR)

Types of Voluntary Disclosure

Private Voluntary Disclosure

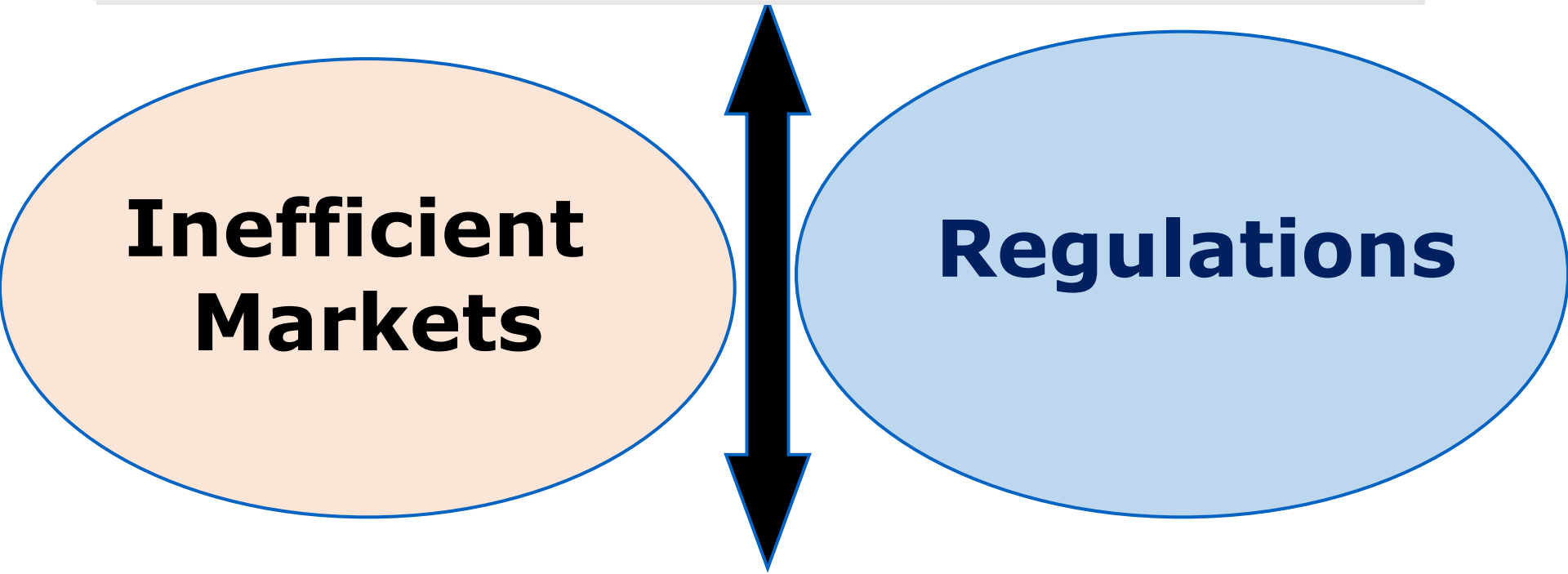
(i.e. private meetings)

**Inefficient
Markets**

Regulations

Public Voluntary Disclosure

(i.e. analyst presentations)

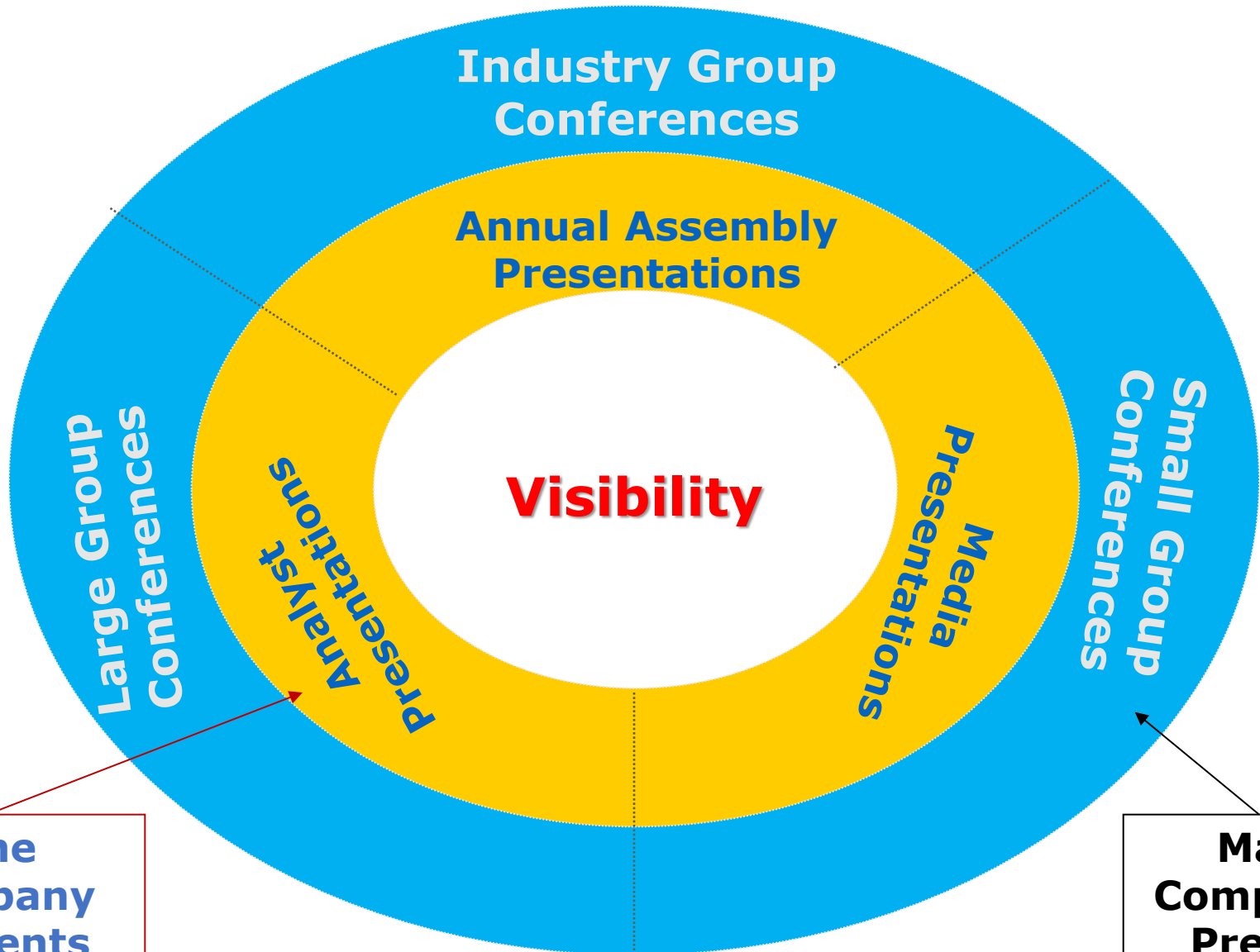


Public Voluntary Disclosure

- **Group Presentations**
- **Industry Conferences**
- **Country Presentations**
- **Analyst Presentations**
- **Group On-Site Visits**

Private Voluntary Disclosure

- **Roadshows**
- **One on One Meetings**
- **Private Conference Calls**
- **Telephone Conversations**
- **Feedback on Analyst Reports**

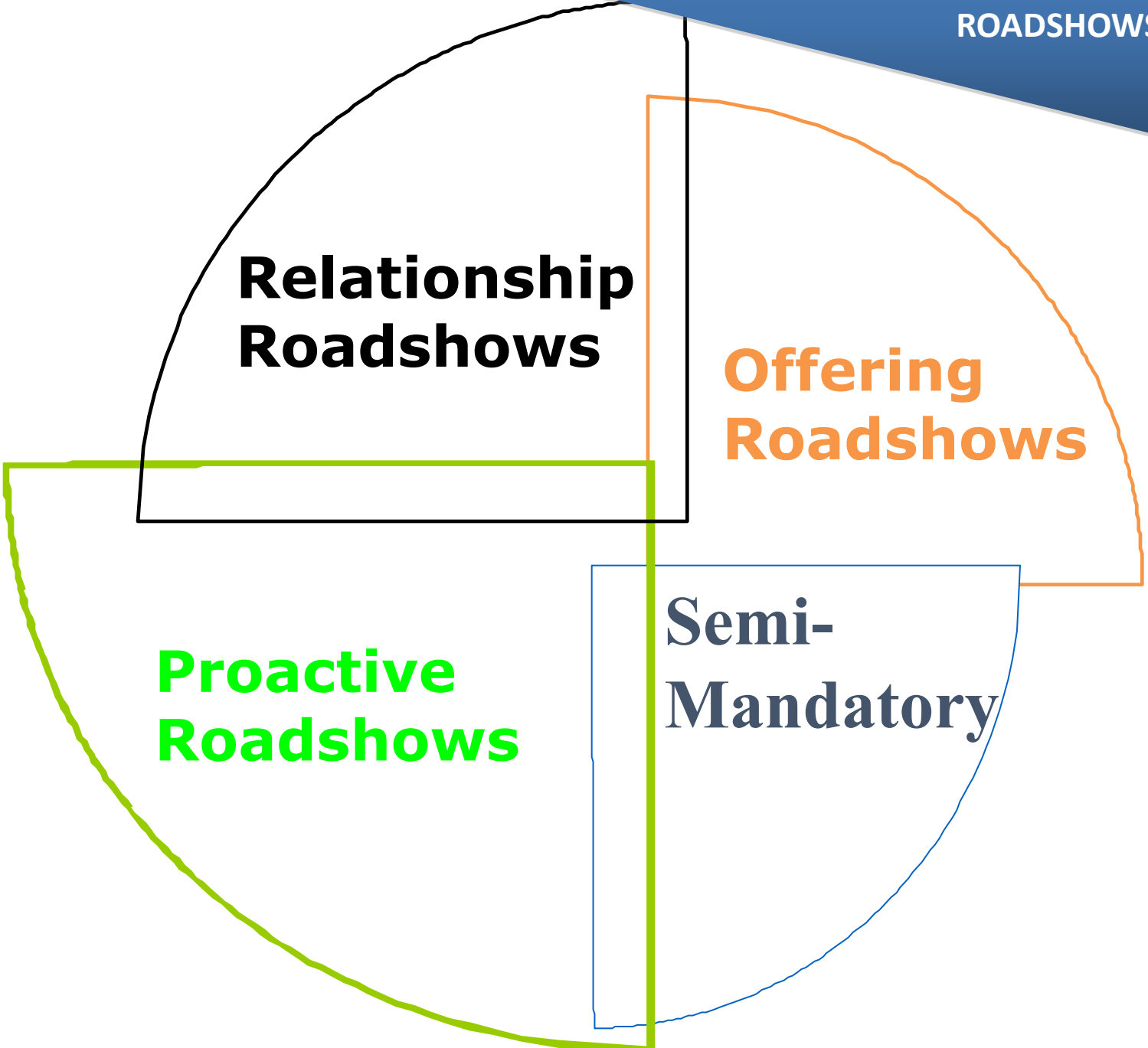


◆ Put companies in front of

- Potential Leading Investors
- Influential Market Players
- Local / Industry Opinion Leaders

◆ Increase companies visibility





**Relationship
Roadshows**

**Offering
Roadshows**

**Proactive
Roadshows**

**Semi-
Mandatory**

Offering	◆ Coincide with primary and secondary offerings ◆ Objective: To make aware ◆ Initiated & implemented by the underwriters
Relationship	■ Coincide with announcement of financial results ■ Can be named tactical or regular ■ Objective: To update ■ Initiated & implemented by banks, brokers, ...
Proactive	▶ Identify and target new potential investors ▶ Objective: To search for new ▶ Initiated & implemented by the IRO

- Analyst report
- Artistic & interesting corporate presentation
- Senior Management team participation
 - Roadshow timing & duration
 - Roadshow geographic dispersion
 - Profile of targeted funds & FMs
 - Profile of targeted cities
- Financial markets cycle stage, mood,...

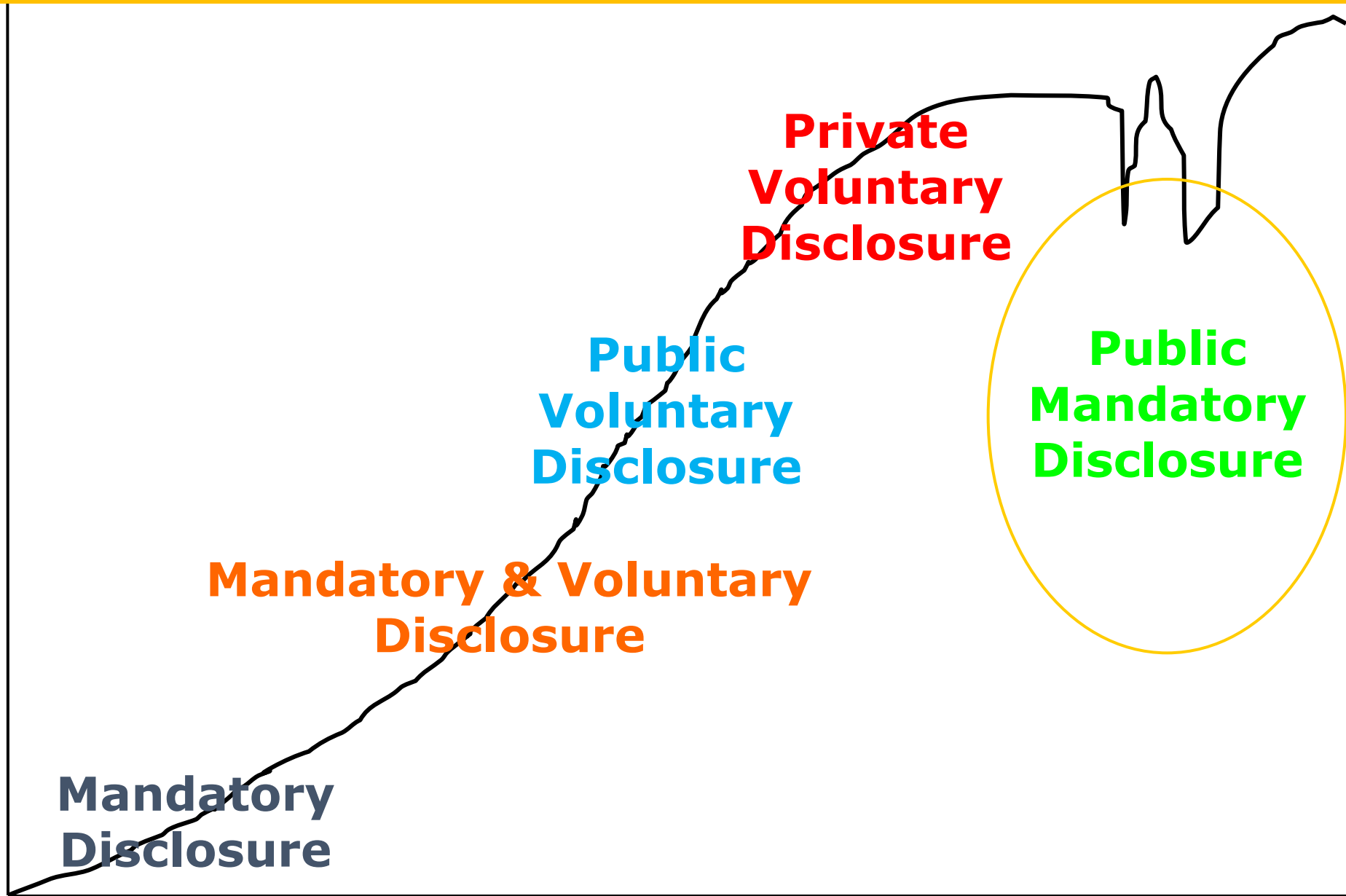
- Voluntary Disclosure ➡ makes the difference
- Firm Visibility ➡ puts companies on the map
- Group Presentations ➡ make companies visible
- Roadshows ➡ bring investment

Integrated Corporate Communication



BRIDGE
INFO GAP
&
ASYMMETRIES

Disclosure follows Life Cycle ...



Communication in Business Cycles

How to
Communicate
the Message

Communicating
the Message is
Changing

Message
is the
Same

Tasks are the Same

- ✓ **Grab Attention**
- ✓ **Create Awareness**
- ✓ **Cut Communication Budget**
- ✓ **Generate greater CC ROI**

Capital Attraction

- A. Information Asymmetry
- B. Disclosure
 - *Mandatory*
 - *Intermediary*
 - *Voluntary*
 - ❑ **Orchestrating Corporate Communication & Investor Relations**
- c. Capital Attraction**
- D. Ethical Issues

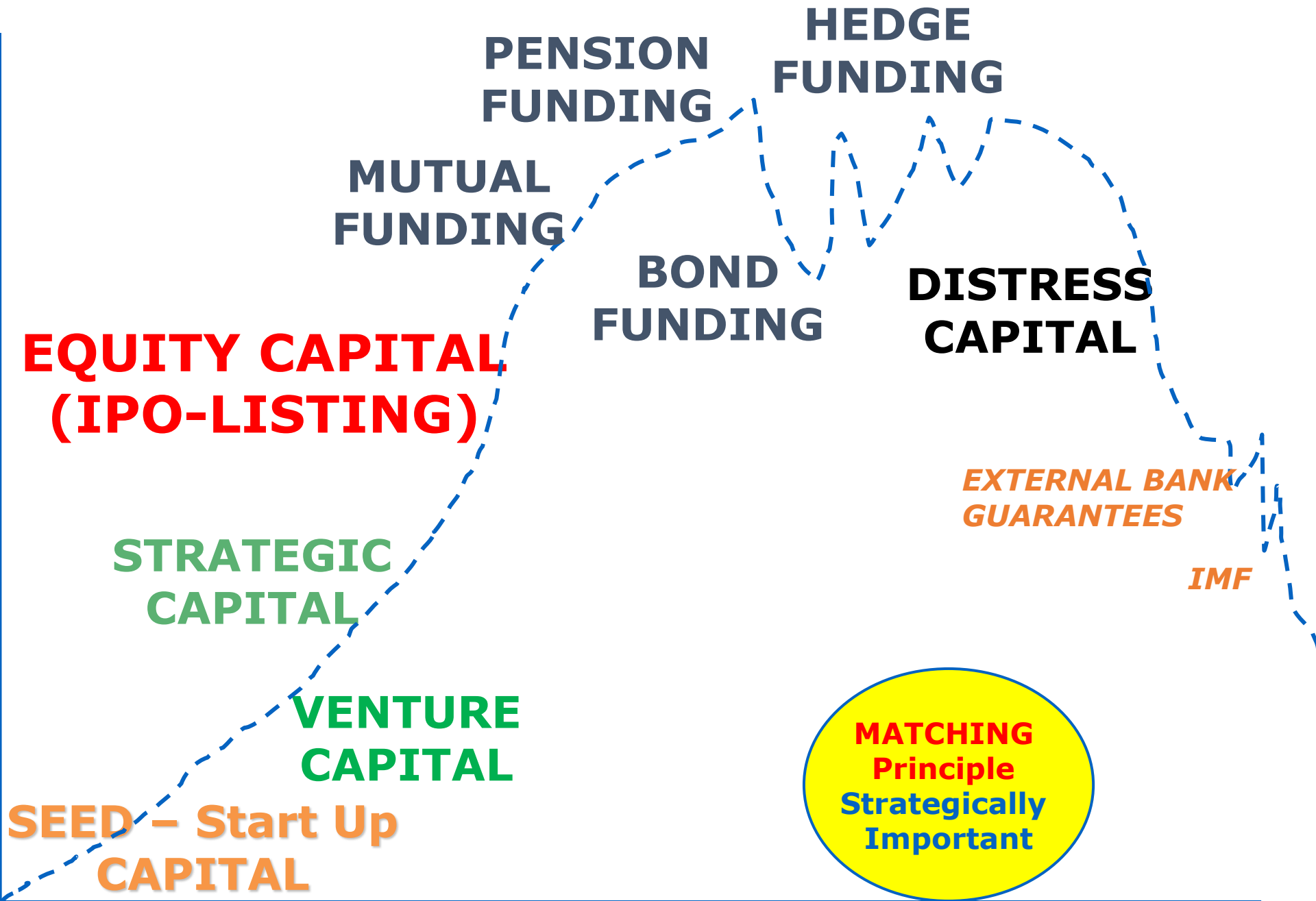
Assumptions - Definitions - Biases

- ❑ Define & Understand
 - ✓ **Capital Attraction**
 - ✓ **Capital Raising**
 - ✓ **Capital Use**
 - ✓ **Capital Accumulation**
- ❑ Define & Understand (Productive Investments)
 - ❑ **FDI (Foreign Direct Investments)**
 - **Domestically Uncontrollable Investments**
 - ❑ **Bond Capital**
 - ❑ **Equity Capital**
 - **Domestically Controllable Investments**
 - **Use of Funds** (*to the benefit of companies & local economy*)
 - **Soft Bus Plans** (*half of the listed companies change plans*)

On Capital Raising

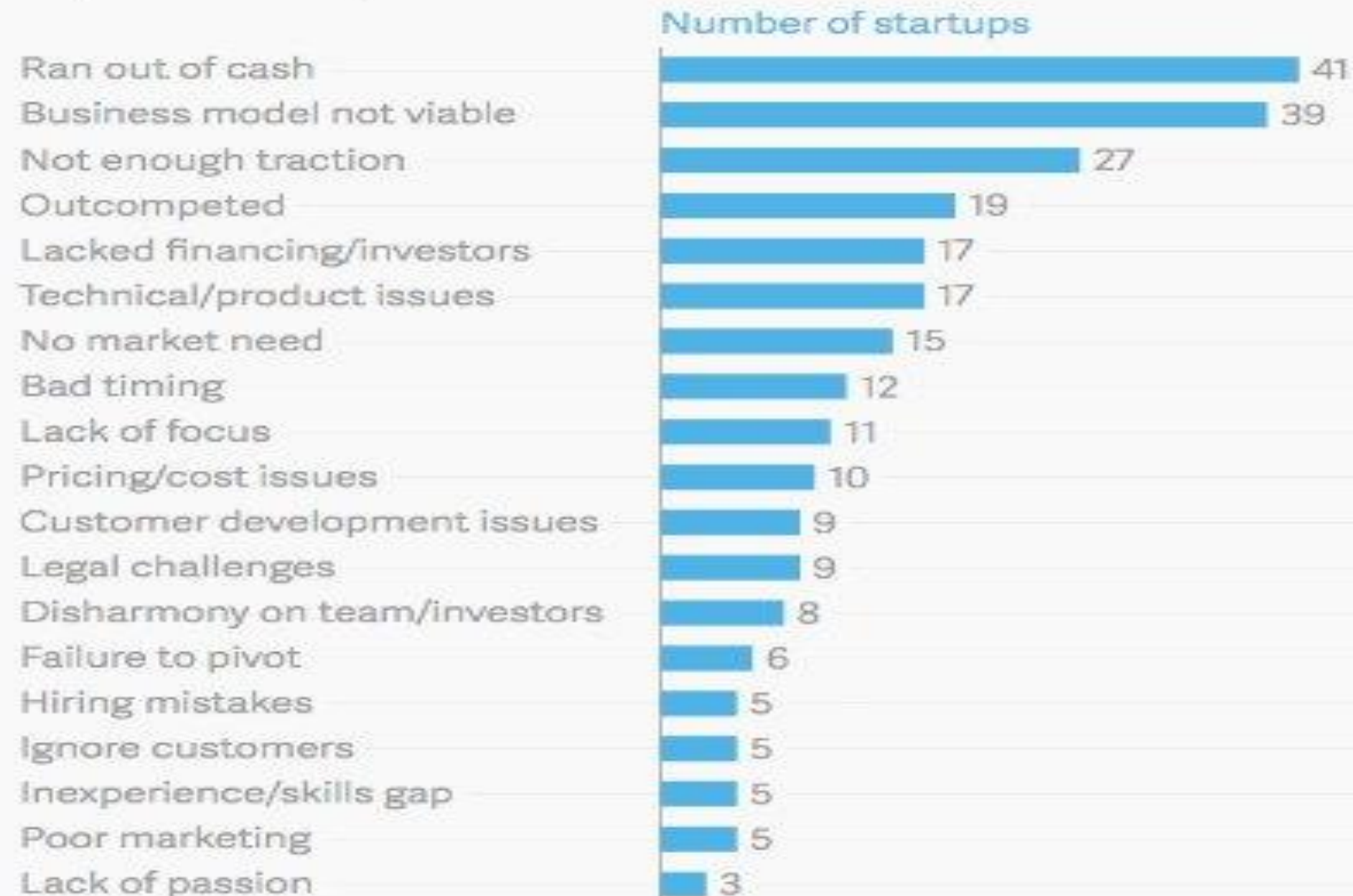
- A) Lots of Money available**
- B) How to Attract these Money - Objectives**
- C) Capital Mapping**
- D) Offerings (IPO,...)**

A) Lots of Money - Targeting Money along LC



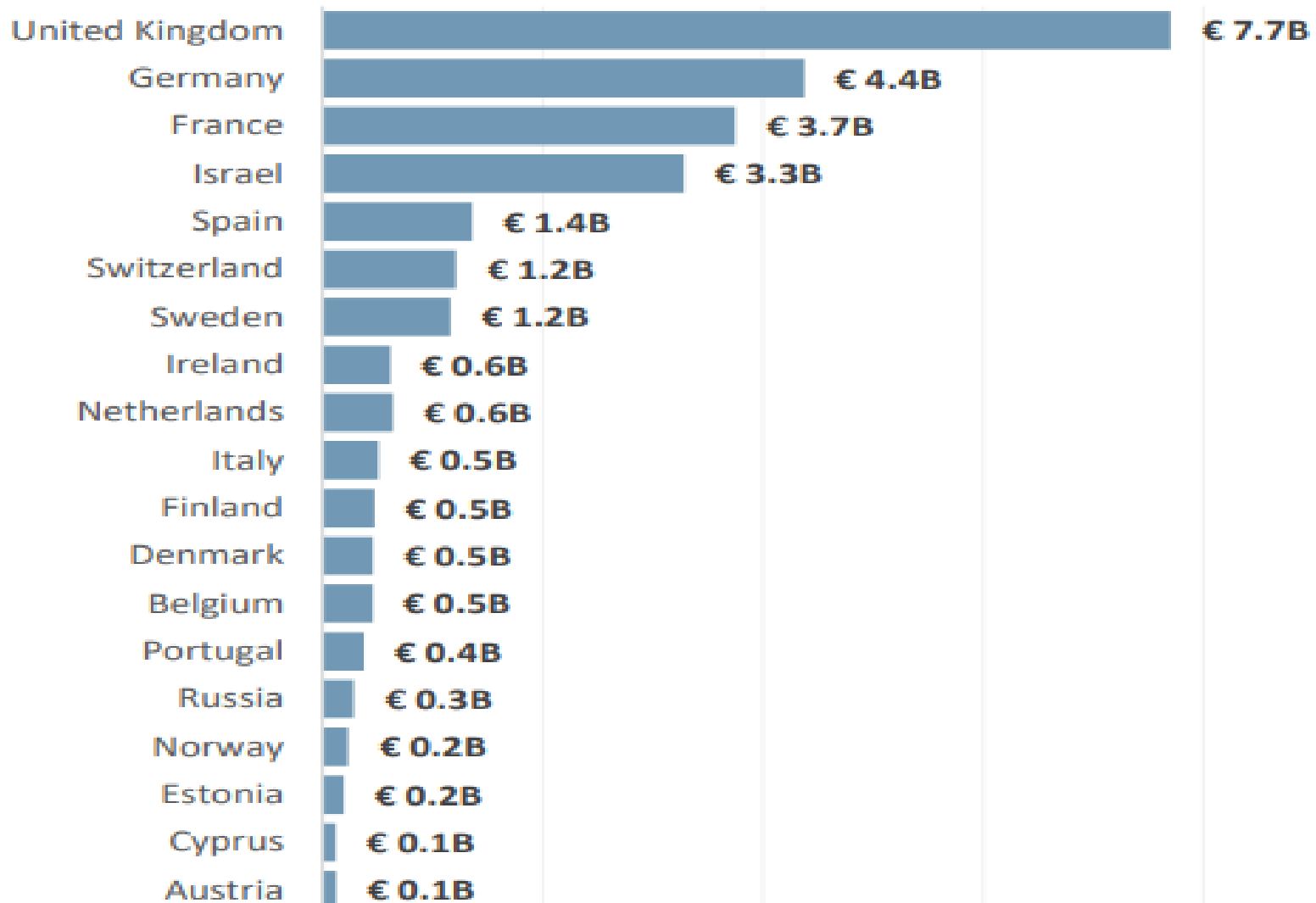
How to Attract Seed Capital?

Why funded startups fail



Attracting ... Venture Capital

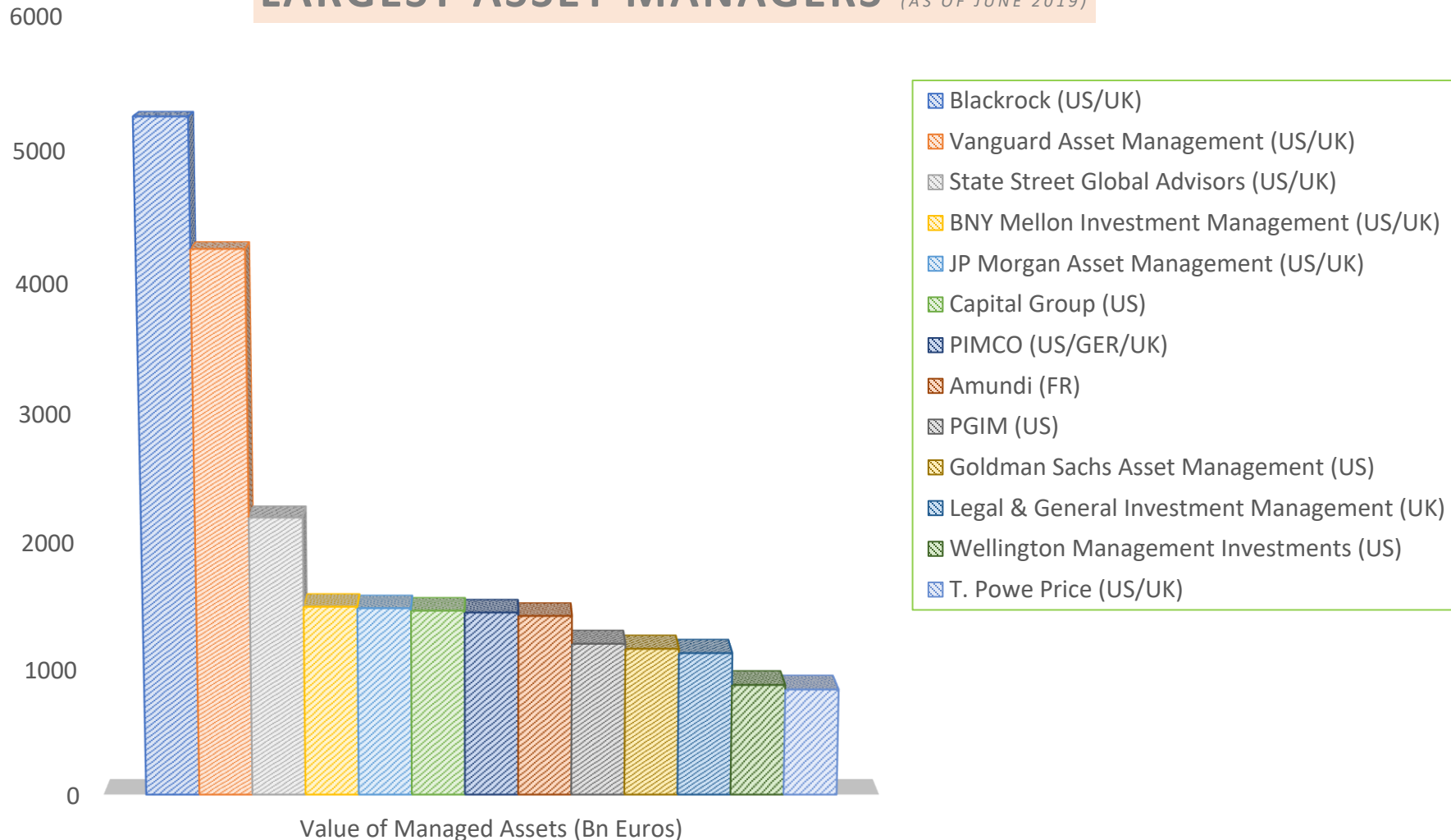
2018 VC investment by country



Equity Capital - Lots of Money Available

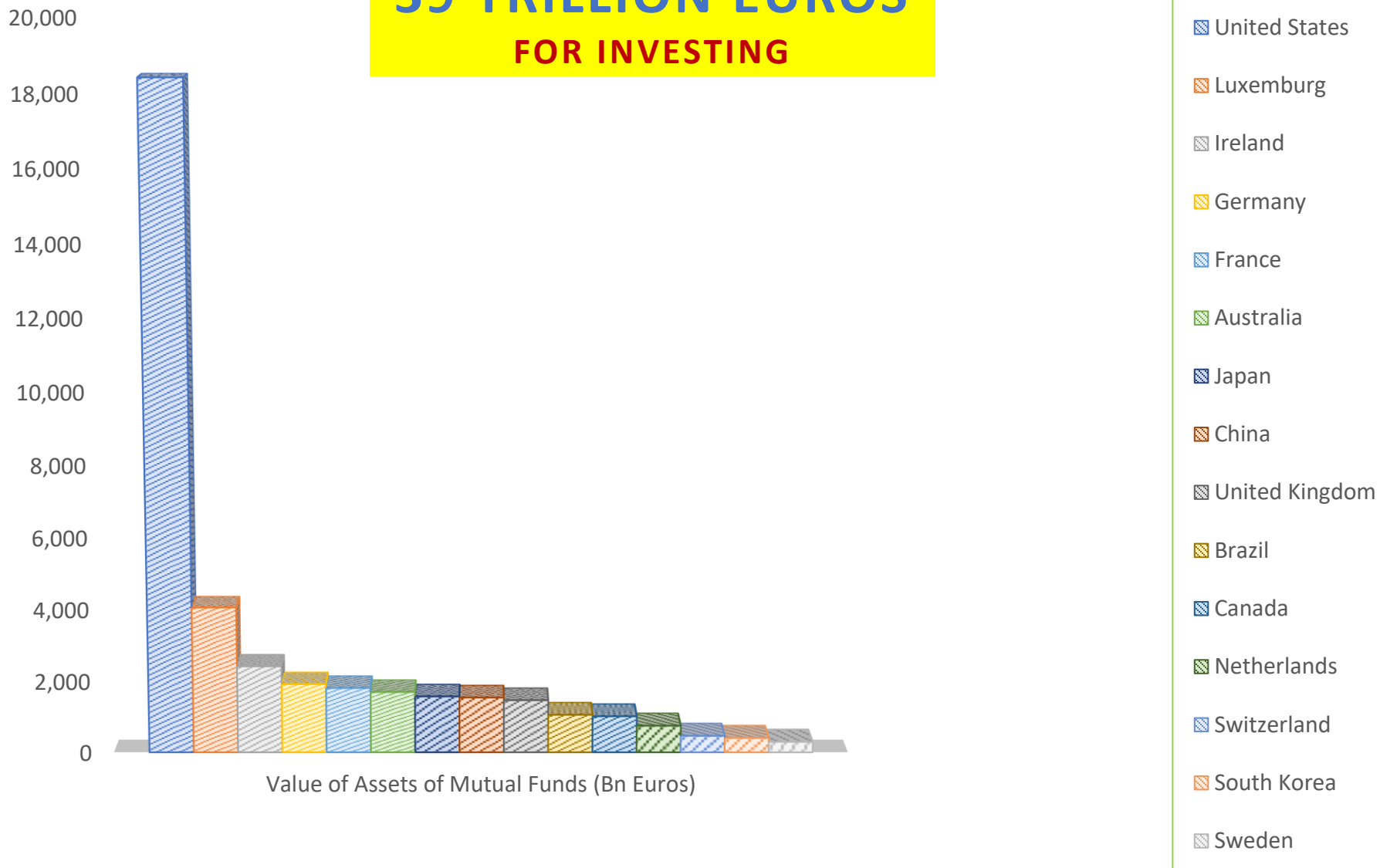
13 Global Largest Funds *(Total 25 trillion Euros)*

LARGEST ASSET MANAGERS (AS OF JUNE 2019)



Value of Assets of Mutual Funds (selected Countries-2018)

**IN 15 COUNTRIES FUNDS HAVE
39 TRILLION EUROS
FOR INVESTING**



B) How to Attract these Money?

Objectives

Objective 1: Follow the six steps

1. Increase **Visibility** – “*Be on the Radar Screen*”
2. Establish *Management & Company* **Credibility**
3. Raise (Investors) **Interest**
4. Increase share **Liquidity**
5. Attract & Retain **Capital**
6. Increase **Stock Price** & Capitalization

Objective 2: Target Strategically

A)	ANALYSTS		
1	SELL-SIDE GLOBAL ANALYSTS	MEDIA	SMALL CAP
2	SELL-SIDE AMERICAN ANALYSTS	ENTERTAINMENT	MEDIUM CAP
3	BUY-SIDE GLOBAL ANALYSTS	TELECOM	EMERGING
4	BUY-SIDE AMERICAN ANALYSTS	INTERNET	EUROPEAN
5	OBJECTIVE ANALYSTS	FOOD	
6	SELL-SIDE GREEK ANALYSTS	BIOTECH	
7	BUY-SIDE GREEK ANALYSTS	ENERGY	
B)	GREEK FUND MANAGERS		
1	EQUITY GREEK FUND MANAGERS		
2	FIXED INCOME GREEK FUND MANAGERS		
3	OTHER GREEK FUND MANAGERS		
Γ)	ANGLO FUND MANAGERS		
1	LONDON FUND MANAGERS		
2	USA FUND MANAGERS		
	NEW YORK FM		
	BOSTON FM		
	ATLANTIC REGION FM		
	FLORIDA		
	MID WEST FM		
	PACIFIC REGION FM		
3	CANADIAN FUND MANAGERS		
Δ)	ROW FUND MANAGERS		
1	GLOBAL FUND MANAGERS		
	EDINBROUGH-SCOTLAND		
	FRANKFURT-GERMANY		
	PARIS-FRANCE		
	MILANO-ITALY		
	HOLLAND		
	SWISS		
	MADRID-SPAIN		
	DENMARK		
	BELGIUM		
	SWEDEN		
	IRELAND		
	AUSTRIA		
	CZECH		
	TURKEY		
	FAR EAST		
	BERMUDA		
	CYPRUS		
	ARAB WORLD		
	BALKAN		
	LATIN AMERICA		

E)	BOND AGENCIES-ANALYSTS-FMs-BANKERS	
1	BOND HOLDERS	
2	BOND AGENCIES	
3	BOND ANALYSTS	
4	BOND FUND MANAGERS	
5	BOND BANKERS	
ΣΤ)	MARKETING-SALES	
1	RETAIL BROKERS	
2	REGISTERED REPRESENTATIVES	
3	GREEK MARKET MAKERS	
4	AMERICAN MARKET MAKERS	
5	TRADERS	
6	SALES DESKS	
7	BANKERS	
Z)	RETAIL	
1	RETAIL INVESTORS	
H)	MEDIA RELATIONS	
1	FINANCIAL MEDIA	
	FOREIGN MEDIA	
	GREEK MEDIA	
2	WIRES	
3	ASSOCIATIONS	
I)	OTHER	
1	GDRs-ADRs-STOCK EXCHANGES	
2	CONSULTANTS - IR	
3	LAWYERS	
4	BACK-UP	
5	ASSOCIATIONS-RESEARCH	
6	VENTURE CAPITAL	
7	CUSTODIANS	

Objective 3: Persuade

**Convert
targeted
potential
investors
to
shareholders**

C) Information & Intelligence - Capital Mapping

Prerequisite: Company & Management Visibility

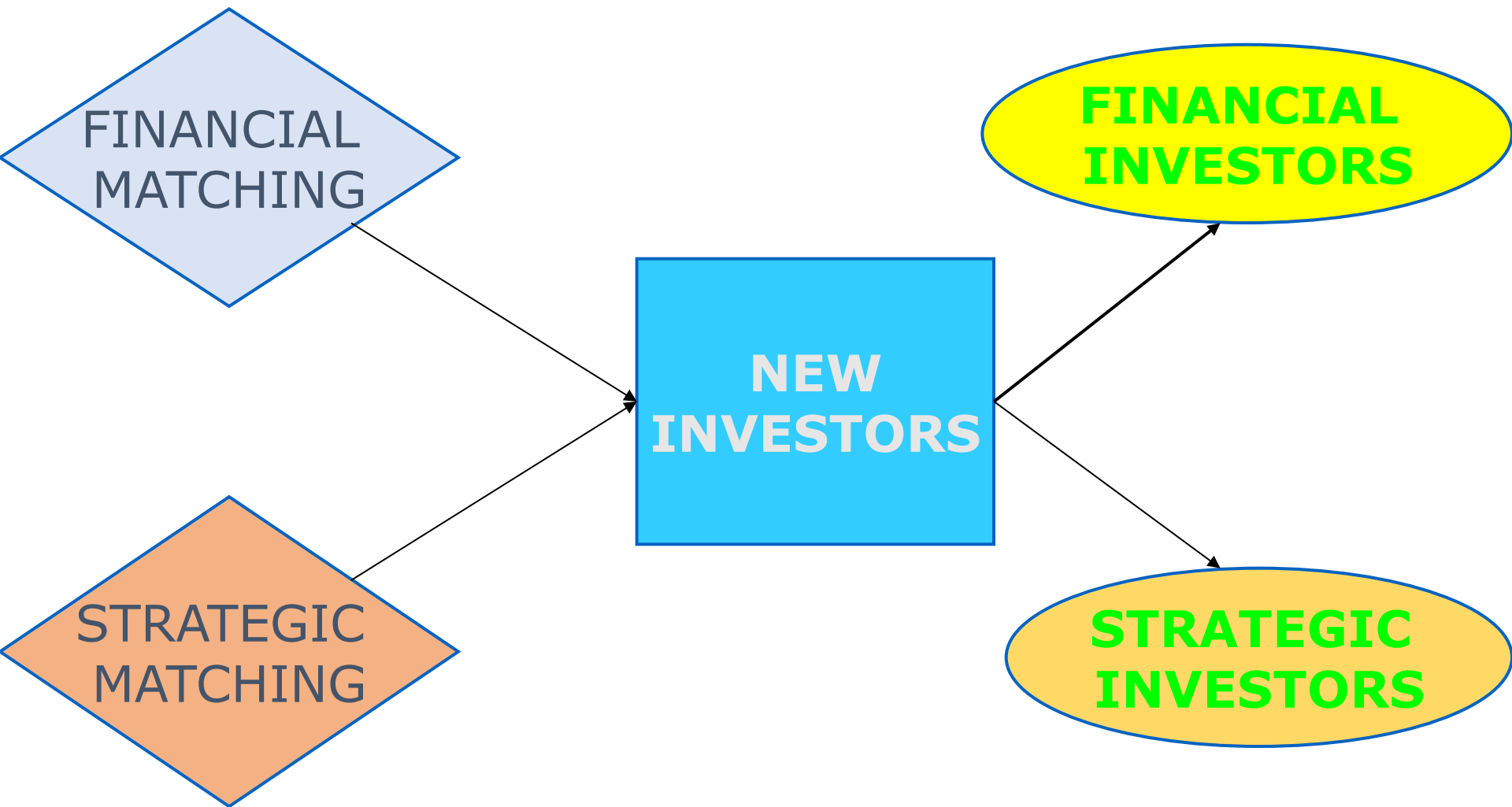
Visibility affects

- ◆ Local and global market awareness
- ◆ Soft and hard information flows
- ◆ Knowledge and education of management
- ◆ Firm evaluation
- ◆ Stock liquidity, marketability, trading,...
- ◆ Stock price
- ◆ Equity shareholding
- ◆ Market players participation
- ◆ Industry knowledge
- ◆ Investment decisions

Intel 1: Where Financial-Strategic-Private-Retail Investors Are?

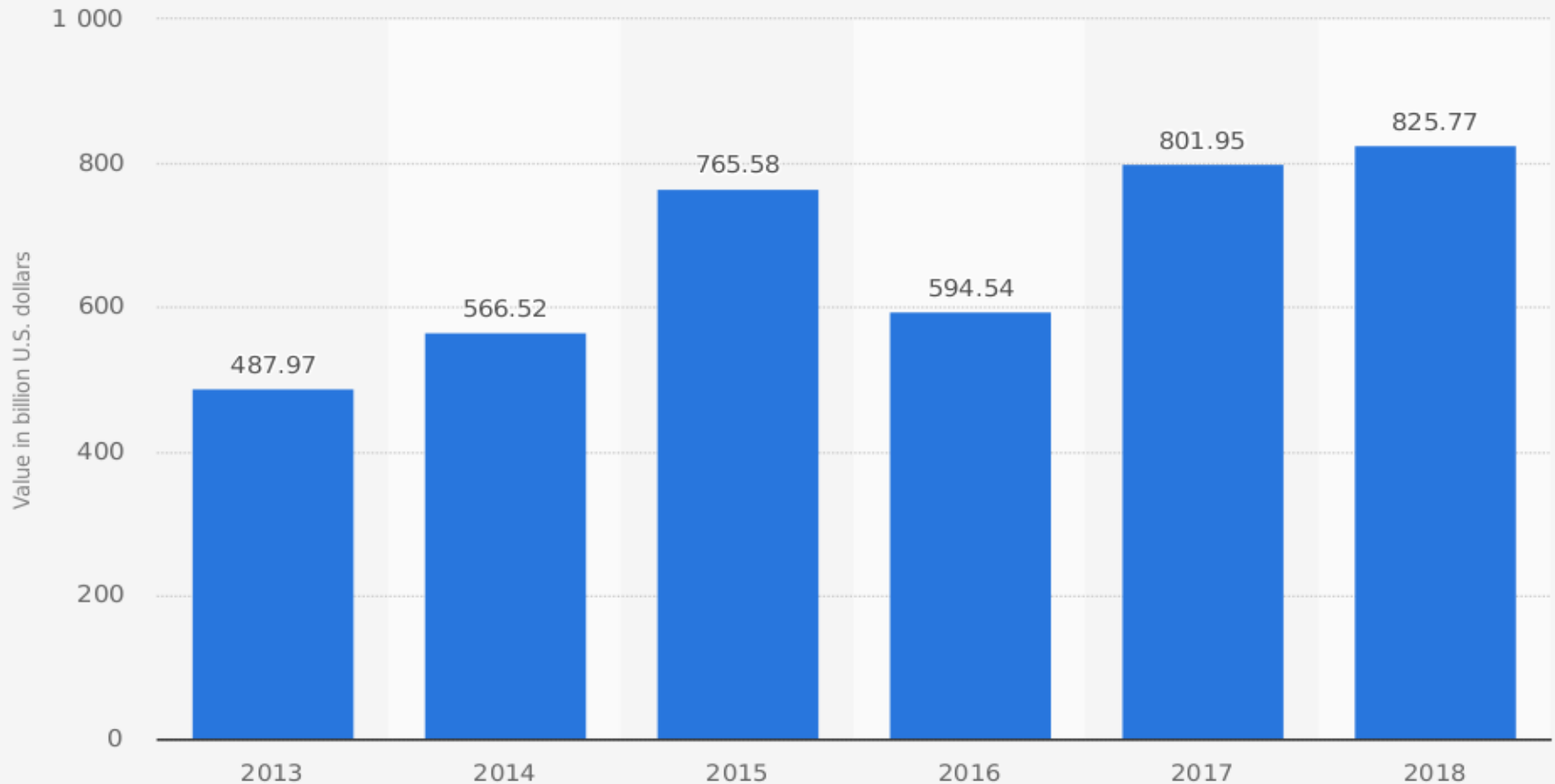


Intel 2: Identifying & Matching with New Investors



Intel 3: Locating Private & Retail money

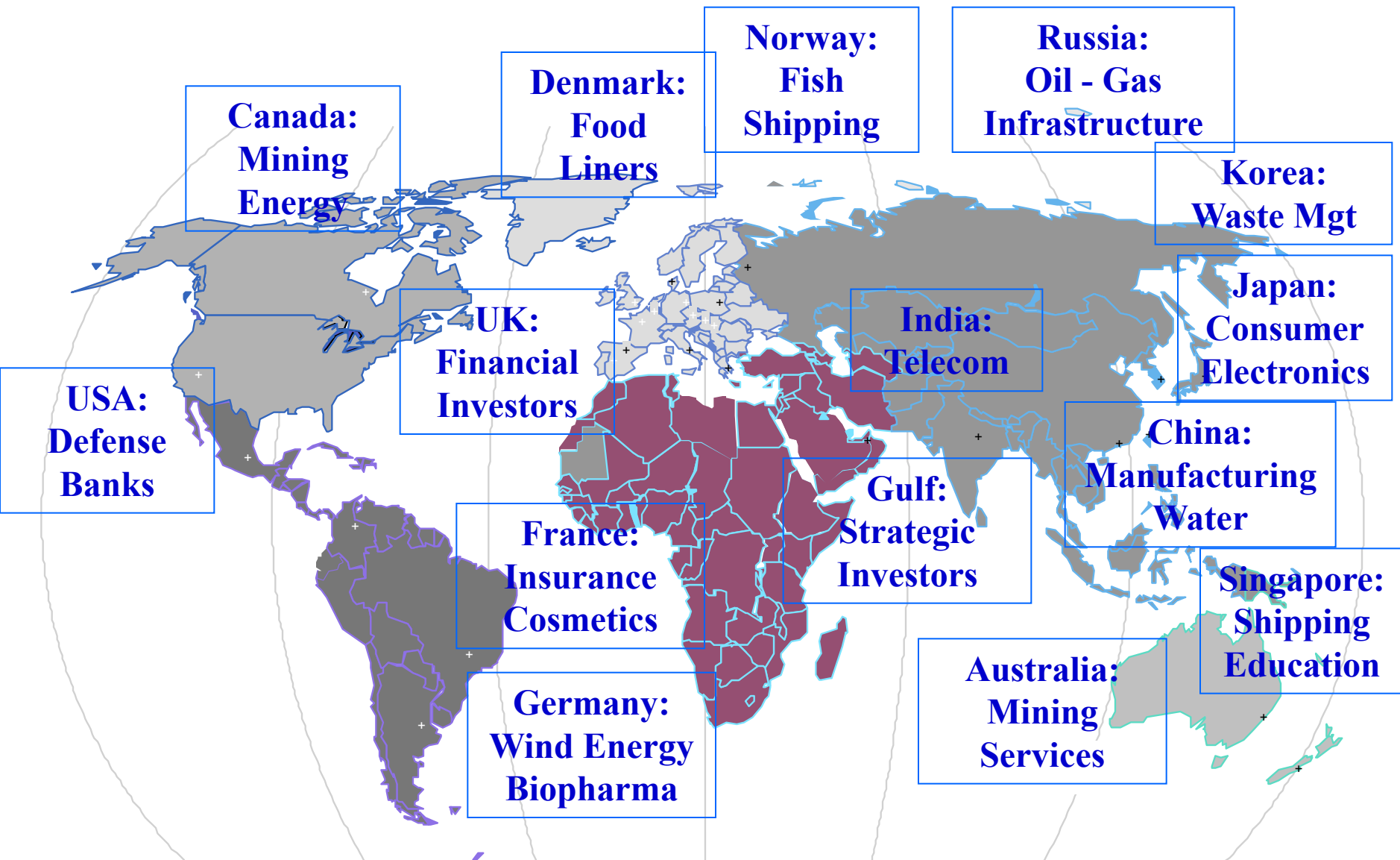
Value of private equity deals worldwide from 2013 to 2018 (in billion U.S. dollars)



Source
Bureau van Dijk
© Statista 2019

Additional Information:
Worldwide; Bureau van Dijk

Intel 4: Targeting Strategic Investors



Intel 5: Attracting LR Institutional Investors

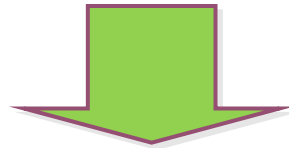
(i.e. Pension Funds)

Financial Characteristics

- **Liquidity**
- Market Capitalization
- 3-year Revenue and EPS Growth
- Consensus Earnings Estimate
- Net Profit margin
- P/E Ratio
- Price to Book Ratio

Non-Financial Characteristics

- **Quality of Management***
- Quality of Products and Services
- Level of Customer Satisfaction
- Strength of Corporate Culture
- Quality of Investor Communications
- Effectiveness of Compensation Policies

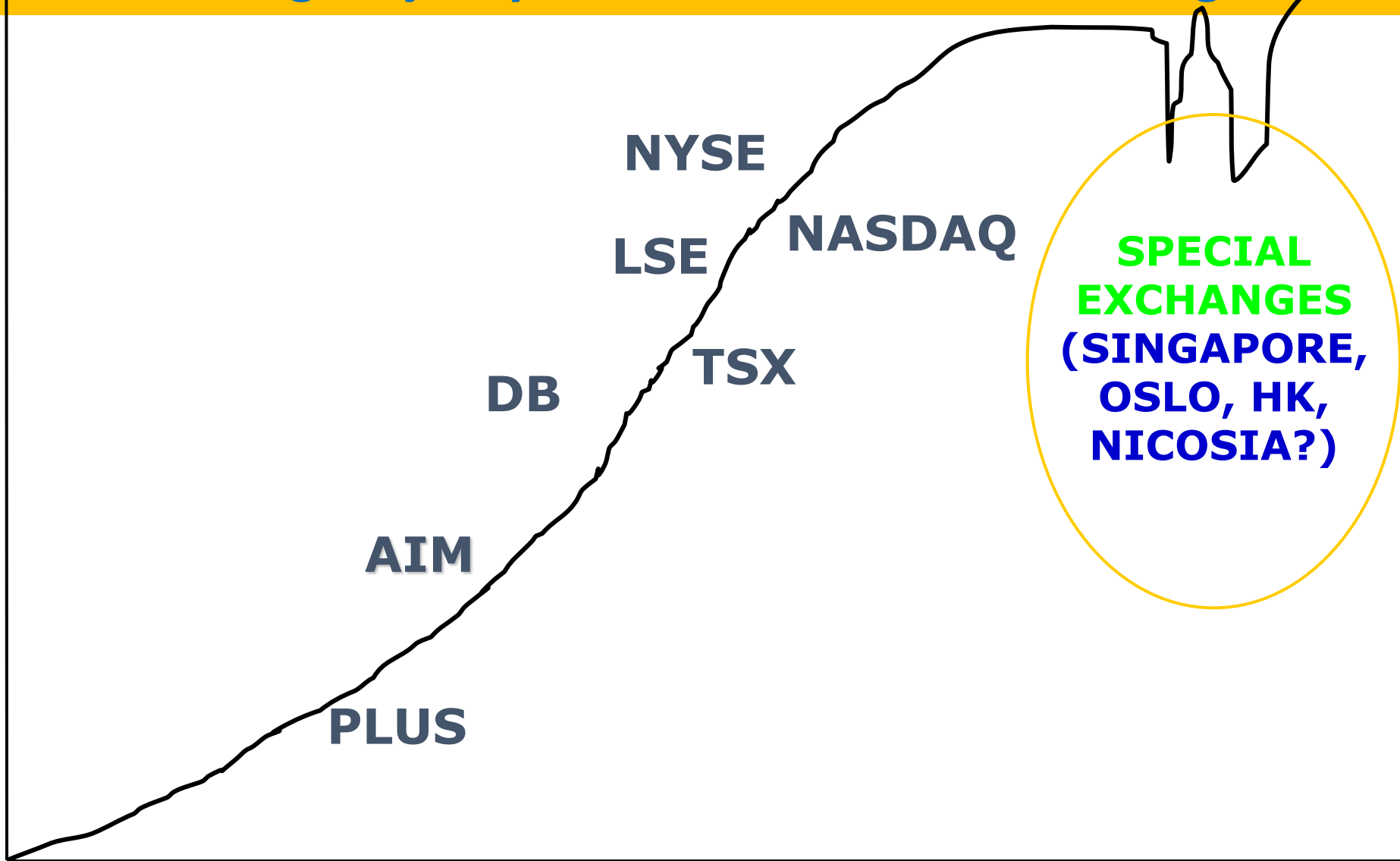


Buying Shares

**"THE MANAGEMENT IS BRILLIANT"*

Francesco Conte, Portfolio Manager, JP Morgan Chase Fleming

Intel 6: Providing Exit Strategies to Funds - Matching Majority Investors with Stock Exchange



D) Offerings (IPO, SPO,..)

List 1: Planning for 3 phases

1) Pre-IPO	<u>Underwriter A</u>	<u>Underwriter B</u>	<u>Underwriter C</u>
LEGAL AND REGULATORY FRAMEWORK			
LISTING FEE			
LEGAL FEES			
AUDITORS FEES			
OUT-OF-POCKET-EXPENSES			
CAPABILITIES			
1) On-IPO			
BANKS SYNDICATE			
OFFERING ROADSHOWS			
TARGETTING AND SHARE DISTRIBUTION			
PRICE SELECTION			
OUT-OF-POCKET-EXPENSES			
1) After-IPO			
FILLINGS			
STOCK EXCHNAGE AND SEC REGULATIONS			
RELATIONSHIP ROADSHOWS			
PROACTIVE ROADSHOWS			
LEGAL FEES			
OUT-OF-POCKET-EXPENSES			

List 2: Offering Cost Structure

<u>Offering cost structure</u>					
<u>A. Offering Advisers</u>	<u>IPO</u>	<u>Secondary Offering</u>	<u>Underwriter's estimation</u>	<u>Company's estimation</u>	<u>Management's opinion</u>
<u>LB</u>					
<u>α) Offering prospectus, etc</u>					
Business Plan - Feasibility Study	32	20			
Prospectus	17	20			
Evaluation	17				
<u>β) Costs</u>					
7 months X 6	42				
5 months X 10		50			
<u>γ) Success Bonus</u>					
0,270% X 96.000.000	260				
0,225% X 160.000.000 (Max 400)		360			
<u>δ) Out-of pocket expenses</u>					
<u>Total</u>	368	360			
<u>B. Legal Advisers</u>					
α) Legal Office A	20	36			
β) Legal Office B	7	137			
γ) Legal Office C		18			
<u>Γ. Auditors</u>					
α) Auditor A	34,2	32			
β) Auditor B	22,4	15			
γ) Auditor C		14			
<u>Δ. Roadshow Consultants</u>					
INTERNATION PRESENTATION		110			
IMAGINATION		154			
<u>E.Printer</u>					
MERRILL BURRUPS		30			
Printer B		42			

- ▶ **Check** carefully the engagement letter with the banks
- ▶ **Select** actively the syndicate - prevent collusion – manage conflict
- ▶ **Control** bookrunner behaviour (trading, allocation)
- ▶ **Be part** of your valuation
- ▶ **Audit** and control feedback from Investors
- ▶ **Enlarge** the pool of targeted Investors
- ▶ **Optimize** pricing and sustain aftermarket performance

“Are the banks serve the interests of their Investors?”

List 3: Selecting Stock Exchange

	<u>NASDAQ</u>	<u>NYSE</u>
<u>A) MONETARY COSTS</u>		
<u>1) LISTING FEES</u>	<u>(The total upfront costs were paid by the issuer)</u>	
Original fee	5.000	36.800
Fees based on shares issued	64.375	57.250
Total upfront fees	69.375	94.050
Annual Continuing Fee	12.460	35.000
<u>2) OTHER COSTS</u>		
<u>2.1) BROKERAGE COMMISSIONS</u>		
		More expensive
<u>2.2) TRADE EXECUTION COSTS</u>		
(They represent a Hidden Cost)	Intermediation increases transaction costs	Direct public interaction reduces transaction costs
Charged implicitly through the prices at which trades are completed	Customer orders are executed at the quote	
Difficult to estimate		
<u>3) TRADING SYSTEM</u>		
	Dealer-driven Market	Auction-driven Market
	Market Makers	Trades result from the matching of investor orders
	Dealers buy and sell from inventory mostly	Specialist Trading
	The Issuer should have many Market Makers	Superior Execution
	(Inter Dealer Trading)	
	↔	Public Order ↔ Public Order
	Public Order---Dealer-Dealer-Dealer---Public Order	
	→ ←	Public Orders trade directly with each other
	(Buy from Dealer) (Sell to Dealer)	

List 4: Selecting Com/IR Firms

EVALUATION CRITERIA

Thursday 20/10/10

Beauty Contest PR/IR firms

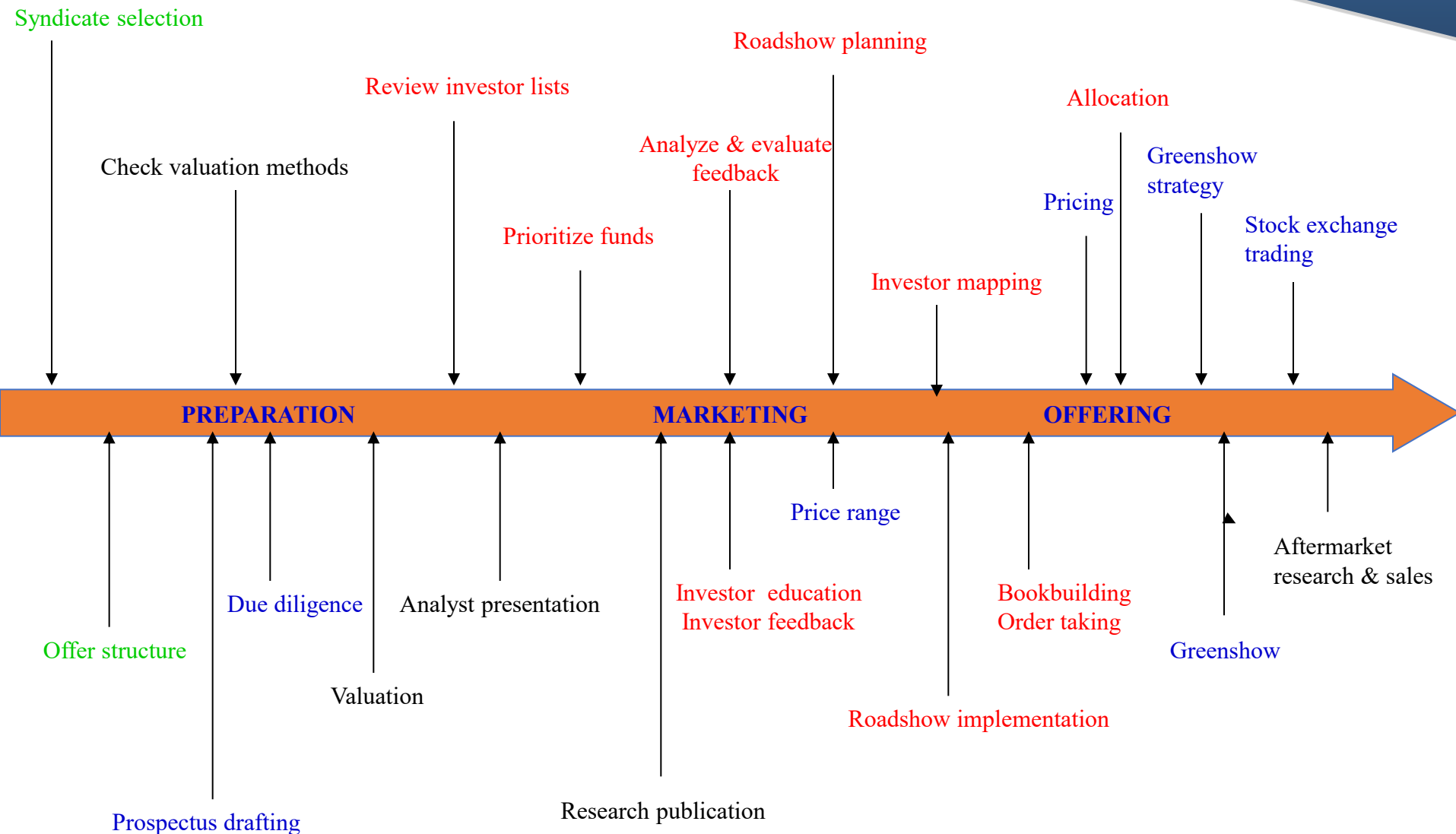
		Related Greek Experience	Local Rep./ Office	Dual Proposal	Key Messages	Media Plan	Cost Structure	Writing Articles	Writing Speeches
9:00	Citigate Dewe Rogerson								
9:45	Shandwick								
10:30	College Hill								
11:15	Financial Dynamics								
12:00	Finsbury								
15:00	Publicom-Spot								
	<u>Subtotal A</u>								
		Specialised in Media comp.							
9:00	Citigate Dewe Rogerson								
9:45	Shandwick								
10:30	College Hill								
11:15	Financial Dynamics								
12:00	Finsbury								
15:00	Publicom-Spot								
	<u>Subtotal B</u>								
	<u>Total Points</u>								

Range of points / marks:

- 5 Best
- 4 Good
- 3 Mediocre
- 2 Insufficient
- 1 Poor

List 5: Optimizing Valuations

VALUATION & OFFERING



Regulated and Standardized Markets

LSE CONTINUING OBLIGATIONS LIST

Notify / send to the Company Announcements Office (of LSE) of:

- ▶ Six copies of Annual Reports, Interim Reports, Auditor's Report, and any other publication within six months of the end of the financial period.
- ▶ Any major new developments (that might affect the financial position of the Issuer.
- ▶ Any information sent to other Stock Exchanges (Equivalent Information).
- ▶ Any changes in Capital Structure (major shareholders).
- ▶ Any information on dividends.
- ▶ Any information concerning the shareholders (meetings, voting, etc.)
- ▶ Any change in the Depositary Receipts in public hands.
- ▶ Finally, pay the annual charges to the LSE.

List 7: Managing Liquidity concerns

PRICE LEVEL

TRADING VOLUME

(RETURN) VOLATILITY

COMPETITION (Contestable Markets)

ADDITIONAL TRADING LOCATIONS

ARBITRAGE OPPORTUNITIES

Currency Fluctuations

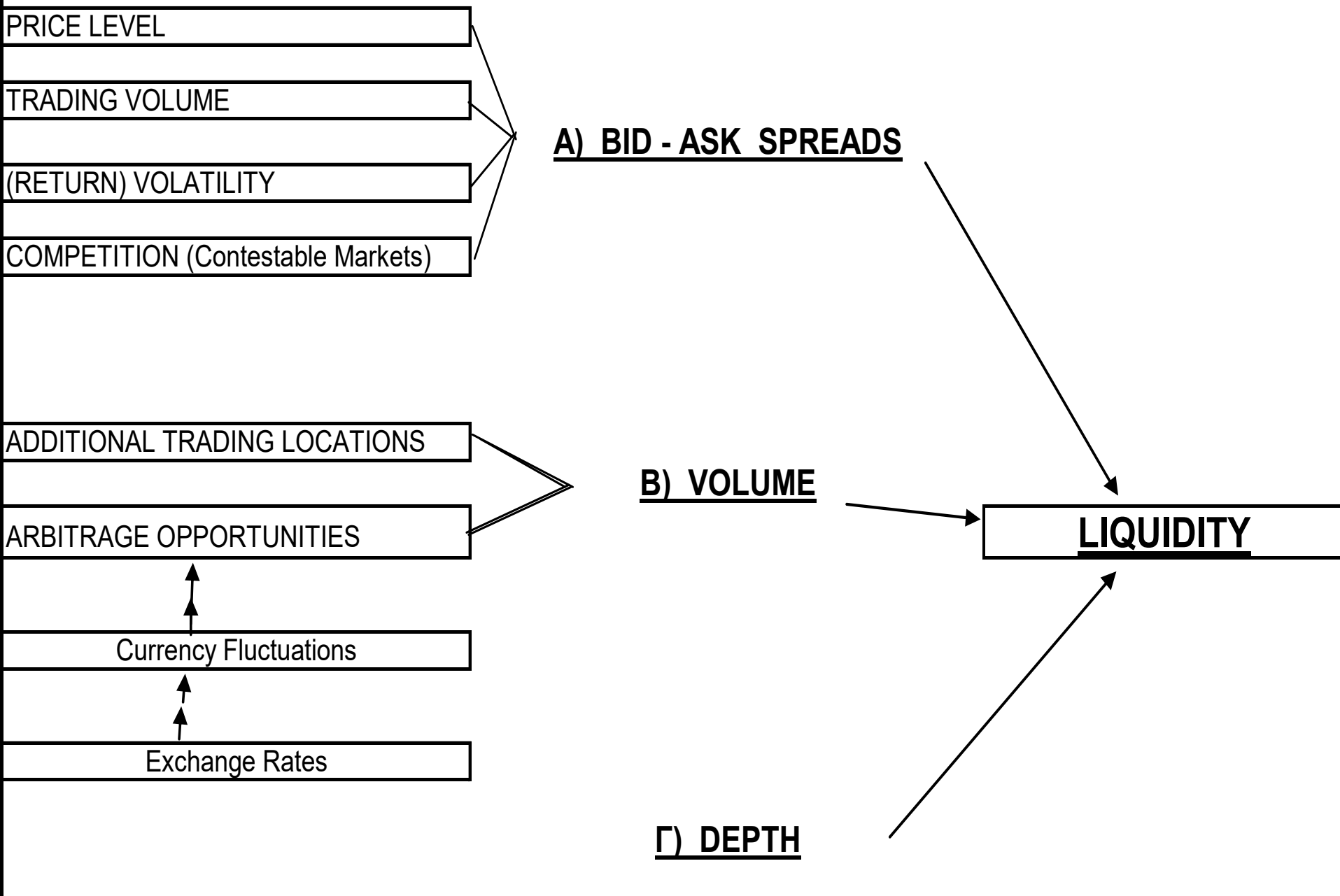
Exchange Rates

A) BID - ASK SPREADS

B) VOLUME

Γ) DEPTH

LIQUIDITY



But having always ... Ethical Dilemmas

Communication officer represents WHOM?



How about Society & Stakeholders?

Ethical Issues

- A. Information Asymmetry
- B. Disclosure
 - *Mandatory*
 - *Intermediary*
 - *Voluntary*
 - ❑ **Orchestrating Corporate Communication & Investor Relations**
- C. Capital Attraction
- D. **Ethical Issues**

Roots of Unethical Behavior

Human driven

- **Personal ethics**
- **Failing to ask oneself if a decision is ethical**
- **Unethical leadership**

Company driven

- **Some organizational cultures de-emphasize business ethics**
- **Pressure to meet unrealistic performance goals**

Technology driven

- **The Internet enriches our lives in a multitude of ways but threatens our ability to THINK.**
- **British neuroscientist Dame Susan Greenfield asserts that the use of electronic devices has an impact on the microcellular structure and complex biochemistry of our brains, which in turn affects our personalities.**

Basis for Ethical issues *(Capital Markets)*

➤ Reducing the information asymmetry

➤ Defining who is in control within a Company-Institution-Government?

➤ **Determining stakeholders and stockholders'**

- *Interests and concerns*
- *Obvious and hidden claims on the organization*

➤ Motivating the agents' behaviour

– *to act in accordance with the company's goals*

➤ Developing mechanisms

– *for removing agents who do not act in accordance with the goals*

Issue 1: Stakeholders-Adding & Getting Value

External Stakeholders

- Customers
- Suppliers
- Creditors
- Governments
- Unions
- Local communities
- General public

Contributions



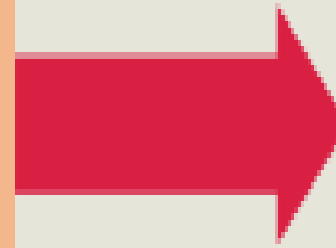
Contributions



The Company



Inducements



Inducements

Internal Stakeholders

- Stockholders
- Employees
- Managers
- Board members

Issue 2: Stakeholders' conflicts

Internal Equilibrium

(Corporate Responsibility)

External Stakeholders

- Everybody has claims
- Everybody should know

Internal Stakeholders

- Stockholders
- Employees
(Managers, BOD)



Government Intervention

(Corporate Governance)

Issue 3: Shareholders' issues

☐ **Stockholders** *are the underlying owners of the company*

- Active & Passive shareholders
- Both receive a return on their investment
 - *Similar or differentiated dividend*
 - *Capital appreciation mainly via stock increase*

☐ **Hidden shareholder?**

☐ **Who controls it?**

☐ **Can it be audited?**

☐ **Any proposals?????**

Issue 4: Are Insiders-Top Management

GOOD Agents(most important)

- **Relationship between**
 - **insiders** (*decision-makers*) and **investors** (*shareholders*)
 - *funds*
 - *individuals* (even *papa and mama*)
 - **owners & managers**
 - **stockholders & senior managers**
 - ✓ *Stockholder - Principal*
 - ✓ *Senior managers - Agent*

Issue 5: BoD measures to Minimize Agents' unethical behaviour, such as ...

Self-dealing

- Insiders & Managers using company funds for personal use

Information manipulation

- Insiders & Managers use their control over corporate data to distort or hide information
 - To enhance their own financial situation or the competitive position of the firm

Anticompetitive behavior

- Aimed at harming actual or potential competitors to enhance the long-run prospects of the firm

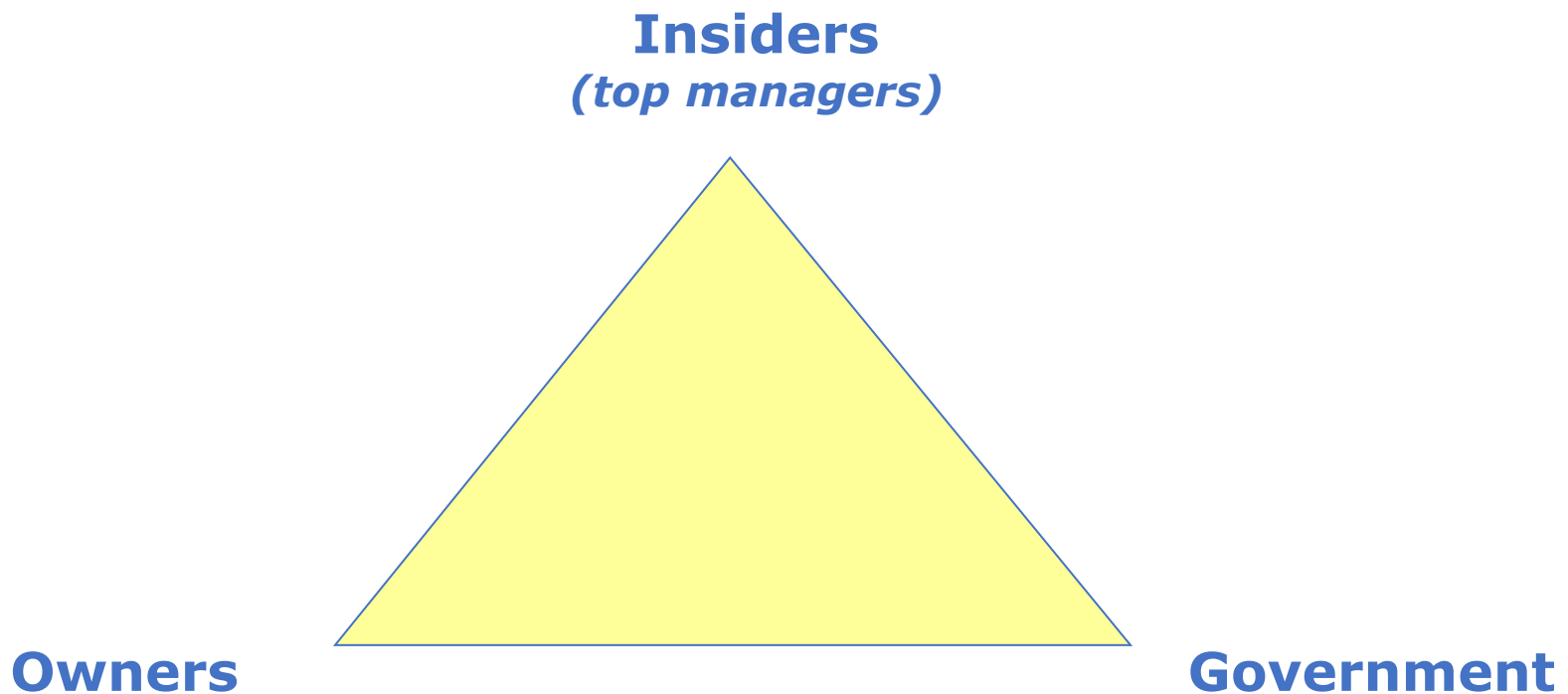
Opportunistic exploitation

- Managers rewriting the terms of a contract to make it favorable to the firm

Issue 6: Who is in control?

Individuals or groups have an interest, claim, or stake in the company ...

... but the power is a play among ... the major three



Issue 7: Who controls the Information?

❑ Triple information relationship:

insiders-owners-government

➤ Government induced

Regulations & Corporate Governance can help/break a corporation....

➤ Company initiated & applied

Rules & Social Responsibility improves public image/product selling....

✓ How an artistic combination of the CG and SR could benefit everybody?

Government induced:

Regulations & Corporate Governance

Board of Directors

- ◆ Inside directors: Senior employees of the company
- ◆ Outside directors: Not full-time employees of the company

To provide objectivity to the monitoring and evaluation of processes.

Stock-based Compensation

- ◆ Stock options: Right to purchase company stock at a predetermined price at some point in the future
 - Strike price - Stock's trading price when the option was originally granted
 - Motivate managers to adopt strategies that increase the share price of the company

To align management and stockholder interests but these regulations have become increasingly controversial.

Government induced:

Regulations & Corporate Governance

Financial Statements & Auditors

- ▶ Quarterly and annual reports of publicly traded companies are filed with the SEC:
 - to give accurate information about the way the agents run the company.
- ▶ SEC requires that the accounts be audited by an independent and accredited accounting firm:
 - to make sure managers do not misrepresent the financial information.

Takeover Constraint

- ▲ Risk of being acquired by another company
- ▲ Corporate raiders - Purchase large blocks of shares in companies that appear to be pursuing strategies inconsistent with maximizing stockholder wealth
- ▲ Greenmail: Pushing companies to either change their strategy to benefit stockholders, or charging a premium for the stocks when the company wants to buy them back

Company applied:

Rules & Social Responsibility

Strategic Control Systems

Targets & Feedback

- Establish standards and targets against which performance can be measured
- Create systems for measuring and monitoring performance on a regular basis
- Compare actual performance against the established targets
- Evaluate results and take corrective action if necessary

Employee Incentives

- Motivate employees to work toward goals central to maximizing long-term profitability
 - Employee Stock Ownership Plans (ESOPs)
 - Stock-option grants
 - Bonus pay

Company applied:

Normative & Ethical Behaviour

- **Encourage** hiring and promotion with a well-grounded sense of personal ethics
 - **Build** an organizational culture that places a high value on ethical behavior
 - *Code of ethics: Formal statement of the ethical priorities to which a business adheres*
 - **Ensure** that managers practice and preach ethical behavior
-
- **Ensure** employees and stakeholders consider the ethical dimension of business decisions
 - **Use** ethics officers
 - **Put** strong governance processes in place
 - **Act** with moral courage

Thank You