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Getting the Story Right

By Timothy Croasdaile

John R. Trueblood recently joined Medical Supply Distribution Corporation as vice president of investor relations, in anticipation of IPO. He reports to CFO Charles B. Bland. Medical Supply, a chronic earnings margin underperformer, is about to be spun off from Mega Diversified Medical Corporation. The new public company is projected to produce $5.6 billion in revenue, but has an operating margin that is woefully below peer company indices.

Trueblood joined MSDC two months before the spin-off, right about the time that preparations for the road show were underway; the lead investment bank, in fact, had already drafted the road show presentation. In his first review of the presentation, he sensed that it exaggerated certain “growth factors” and underplayed the operating margin challenges that the soon-to-be-public company faced. The growth factors, Trueblood learned from VP for Corporate Communication Steve B. Right, were real “Hail Mary’s” — risky, not proven businesses — with a good chance of failure.

He also was concerned that the road show presentation as drafted misrepresented the prospects for MSDC. He asked for meeting with his boss Bland to present a case to change the emphasis of the presentation — communicating a cogent management strategy to fix the operating margin problems. Bland rejected Trueblood’s request out of hand, remarking that the investment bankers know what will sell on Wall Street and that the presentation would stay the way it was drafted. Besides, he added, “Why would you want to emphasize negatives that will affect the pricing of the stock?” Bland, by the way, had no prior public company experienced.

It was Bland’s “know what will sell on Wall Street” comment that stuck in Trueblood’s craw, It worried him that the investment bankers were creating investor expectations that couldn’t be met by the company. It was obvious that they had Bland’s complete confidence and he, as the new kid on the block, did not.

In his weekly meeting with VP for Corporate Communication, Nearly Right, Trueblood expressed his concern that the road show presentation would mislead investors. Right, who reports to MSDC CEO Bob R. Clean, added that he thought the investment banker’s approach had the potential to demoralize the employee base at MSDC, since it was common knowledge that fixing the earnings margin problems was the life and death issue for the company. If management persisted in presenting the investment banker line of thought, their credibility with employees would be nonexistent.

Together, Trueblood and Right concocted a plan: they would pool some resources from their respective budgets to fund a speedy opinion research study, asking a sample of buy-side portfolio managers and analysts their views on what were the important issues that they thought management should address in the road show. The results were predictable and loud and clear. The overwhelming issue reported by the research company was, “How is management planning to improve earnings margins?” Not surprisingly, another key issue from the survey was concern about the quality of management.

Armed with these facts, Trueblood and Right decided to present them individually to their respective bosses. In Trueblood’s presentation to Bland, his CFO boss chose to focus on the veracity of the study and its sample than the results, again asserting that the investment bankers “ were on top of what investors wanted to hear,” and basically shot down the research.

Right, on the other hand, had a very different reaction about the research findings. CEO Clean exclaimed, “This is totally counter to what the investment bankers are advising us.” Clean immediately called Bland into his office for his reaction. Upon learning that Bland had also received the research results (and taken no action), Clean concluded that his CFO was not the best steward for the company’s investor relations initiative and on the spot informed Bland that henceforth Trueblood would report to him alongside VP for Corporate Communication Right. Together, the two of them would re-draft the road show presentation and create an integrated communication strategy to project management’s strategy to right the course on the operating margins of the company.

The CEO was a big believer in delegation and the CFO originally approached his position as “it's my domain.” The shock of losing the IR function had a positive impact on the Bland at a crucial time, making him more collegial and collaborative.

Epilogue: Management did follow through on presenting the strategy for fixing the earnings *margin problem as the main story point on the road show. The stock was priced at $15 per share in the offering, In the subsequent year, the company performed against the margin goals and by fiscal year-end MSDC's operating margin was approaching the peer group average. The stock a year later was selling at $32 per share.*

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