Kyara, which means “precious” in ancient Japanese, is an aromatic resin regarded as the highest quality of all agarwood.

“lakyara [la-kæ ’la]” aims to deliver the same quality as Kyara together with NRI’s endeavor for continuous excellence and innovation to provide the most advanced and up-to-date information to our readers worldwide.

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Communication with long-term investors for company value creation

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Japanese companies are endeavoring to disclose much information voluntarily, such as CSR reports or medium-term management plans as IR activities in addition to legally mandated disclosures. However, in order to compete against overseas companies for investor attention, it is important for them to understand how investors evaluate them to enhance their corporate value by engaging in dialogue with institutional investors.

Various initiatives to improve corporate disclosure have been undertaken in Japan in recent years as Japanese stocks have lost favor among investors amid the post-Lehman equity market slump. Institutions involved with corporate disclosure have debated and reached a consensus regarding the information value of some reports intended to evaluate company activities, such as CSR, ESG, and CO2 emissions reports, and medium-term management plans, and also the value of editing them by XBRL. Some companies, however, remain skeptical of how effectively such information and XBRL data are utilized. Even if a company prepares information disclosures, they obviously do not fulfill their intended function if the information does not efficiently reach the investors that need it.

In this regard, Japanese companies have much to learn from their overseas counterparts. Following is a discussion of US companies’ information disclosure practices and approaches to communication with institutional investors based on the US National Investor Relations Institute’s (NIRI) 2010 annual conference’s proceedings and an interview survey of US and Japanese companies.

**Dialogue with institutional investors**

With Japanese stocks’ aggregate market capitalization declining in recent years, the number of analysts covering Japanese stocks has also been progressively decreasing. Although analysts are an important conduit of information between companies and institutional investors, many IROs feel that analysts do not pay attention to them despite their many prepared materials, regardless of the size of the company’s market capitalization. Many companies have consequently been placing priority on IR targeted at individual investors, who tend to be more receptive to direct contacts.

Even in the US, analysts are decreasing in number, but companies have started to place more emphasis on direct dialogue with institutional investors. In the words of an NIRI representative, “The biggest reason for IR is to get the long-term investment message about the company out to those who will invest for the longer term.” Building solid relationships with long-term institutional investors instead of individual investors with small ownership interests creates stability vis-à-vis short-term share price fluctuations.

**US companies’ IR practices**

One recent trend among companies that make contact with institutional investors is “institutional investor outreach.” Institutional investor outreach is based on the idea that it is important to analyze your own company through institutional investors’ eyes, ascertain what type of investor is a good fit for your company, and take action accordingly. Companies that practice investor outreach are screening institutional investors based on analysis of what type of companies they own. In the US, institutional investors with assets under management of $1 million or more are required to report their stock holdings on a quarterly basis. From these regulatory filings, companies can learn investors’ trading habits. A number of tools for institutional investor outreach based on their stockholdings are also available. Additionally, when a company is contacted by an unknown institutional investor, it can ascertain the investor’s past portfolio holdings before talking to the investor. In sum, companies in the US have the means to evaluate investors.
Once a company has thus identified investors to target, it proactively approaches them. At several sessions at the 2010 NIRI annual conference, speakers from the financial industry expressed the view that it is important for companies in the US to be willing to communicate directly to institutional investors for two reasons. First, as securities firms in the US have reduced their numbers of sell-side analysts, they can no longer feasibly research individual companies deeply. Second, buy-side investors are relying on their own in-house research, perhaps in response to proxy disclosures.

US companies submit their earnings reports and other information disclosures to EDGAR. However, doing so is not sufficient to ensure that the information reaches investors, unless the filer is already a high-profile company. Many companies therefore concurrently notify key institutional investors of their filings and take additional actions such as sending invitations to conference calls or one-on-one meetings with investors.

In the US, some companies have "investor days" apart from analyst conferences. Some even hold interactive webcasts for communication with investors. Companies must be careful not to violate the SEC’s Regulation FD (Fair Disclosure), but NIRI has prepared standards for disclosure compliance and published a book “Standards of Practice for Investor Relations” (now in its third edition) regarding matters such as disclosure methods when new material information has been inadvertently discussed in a private meeting with an institutional investor and handling of discussions of non-material information. Such guidelines facilitate in-depth discussion with institutional investors.

Various tools that support such activities also have been developed, including instant notification of targeted investors when XBRL-formatted filings are submitted to EDGAR, and tools to prepare required disclosure filings easily analyzable by institutional investors, communicate using methods of social networking systems, and help set up meetings with investors. After amendment of Regulation FD, companies are permitted to use their own websites as an information disclosure medium if they publish their disclosure standards. Opportunities to release financial and other information without its sinking into obscurity have consequently increased for many companies.

Such proactive information releases by companies is stimulating investment in small-cap stocks. At the NIRI convention, an IRO of a US company with a market capitalization of around ¥8 billion told us, “The important point for our company IR activities for institutional investors is how to make them understand our highly specialized products and business. So we directly explain for them about our business.” There are some IR conventions that focus on mid- and small-cap companies. The efficient circulation of information that meets such investors’ needs is facilitated by a broad array of tools and infrastructure. The environment in the US is conducive to companies of all market caps identifying institutional investors that would be a good match for themselves.

### Issues in Japan and ideal future direction

Even in Japan, some institutional investors, particularly those that invest in small-cap stocks, engage companies in dialogue and place importance on management philosophy. However, Japan’s IR environment is unfortunately very different from the US. Information about institutional investors' investment profiles (such as names and size of shareholdings) are generally not accessible to Japanese companies, many of which are entirely dependent on securities firms. Japanese companies face other constraints on their ability to communicate information that should be communicated, including concerns about compliance with multiple disclosure regulations and rules and a lack of face time with institutional investors outside of earnings reports.

Nonetheless, the environment is gradually improving. The Tokyo Stock Exchange has prepared standard templates for corporate governance reports, which are converted to XBRL, enabling them to be quickly searched for qualitative information by institutional investors. The Ministry of Economy, Trade and Industry is conducting research into promoting disclosure and utilization of nonfinancial information, including through use of XBRL. Preparations are also underway to facilitate evaluation of Japanese companies’ nonfinancial strengths by foreign investors. Toward this end, attempting to utilize XBRL more actively and raise awareness of modes of transmitting information...
easily analyzable by institutional investors would be a good start. Focusing on IR as a means of identifying institutional investors that will support your company’s long-term growth like a main bank should help enhance corporate value.

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1) NRI is a nonprofit organization founded in 1969. It currently has some 4,400 members, mostly US-listed companies but also companies from more than 30 other countries. It conducts a broad range of activities related to corporate information.

2) Conducted in 2010 by NRI. Survey respondents included organizations involved in corporate disclosure issues, corporate IR departments and related (e.g., PR) organizational units, financial institutions, and IR vendors.

3) A workshop on institutional investor outreach techniques was conducted at the 2010 NRI annual conference. Its subject matter included objective classification of one’s own company and institutional investors’ methods of evaluating companies.

4) The importance of dialogue between companies and institutional investors was discussed within the context of reform of disclosure of shareholder voting results in the US effective this year.

5) The EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system collects, verifies, classifies, and processes documents that companies and other entities are to required file with the SEC pursuant to the US Securities Act of 1933 and Securities and Exchange Act of 1934.

6) An IR convention exclusively for micro-cap companies and investors was profiled at an investor outreach session at the NRI annual conference. Such conventions enable efficient exchange of information by limiting attendance to institutional investors and companies that meet each one’s needs.

7) The subject matter of METI’s research includes utilization of XBRL in conjunction with nonfinancial information (World Intellectual Capital/Assets Initiative) and reporting that integrates nonfinancial information and conventional financial information (IIRC/International Integrated Reporting Committee).