

Hacks & Flacks Meeting Summary

Design Automation Conference, June 9, 2004

Purpose of the meeting:

To provide a forum where analysts and PR people could discuss their intersecting needs for exposure and information and determine how to work together more effectively.

Panel:

- Jordan Brysk, president of Ascendant Strategies Group
- Erach Desai, EDA analyst for American Technology Research
- Jessica Kourakos, former equity research analyst with Goldman Sachs now in charge of investor relations at Synopsys
- Garo Toomajianian, vice president with RBC Capital Markets
- Jay Vleeschhouwer, vice president of technical design and software at Merrill Lynch

Moderator: Steve Pollock, VP of Sales and Marketing, IC Manage; Emerging Companies Chairman, EDAC

Q&A:

What is the role of an analyst or IR person in the EDA industry?

- True role of an analyst for an independent investment boutique: analyze and don't just report, think independently.
- Analysts provide investment advice to institutional investors. A "good" company can be a lousy investment; a "lousy" company can be a good investment. Help investors sort through the available information.
- A "good company" should have integrity, solve real problems, have a good product, be good to employees, partners and customers. Separate the stock from the company. Don't personalize the stock. Run the business; the rest will take care of itself.
- Create good value; investment will follow. The more good investments there are, the better the outcome for the whole EDA industry.
- IR acts as a proxy for investors to the executive management team of the company. This is a strategic position, not just simply a matter of communications.
- Analysts should be clinical assessors, observers of companies

What makes an EDA startup seem like a probable winner to you? What are the top three things they want to know about a privately held EDA startup?

- Must have three key ingredients: management team, technical team, full understanding of the market that is being addressed.
- Same as any other industry: forthrightness and ability to create an understandable business model, clear role as a change agent, business size and growth.
- Presume that all investors are not technologists, and create a cogent explanation of the business plan, background of the management team, understanding of addressed market.

Show differentiators and the ability to grow. Provide customer references; analysts will check.

- Management integrity. Technology. Customer base, and how well the company treats customers.

What's most attractive to the investors about EDA?

- Bookings have most influence on stock values.
- In EDA, valuations are cheaper than in other industry segments. On the other hand, it's a harder space to understand. Easier for people to understand boxes and chips.
- Because EDA is so esoteric, financials must be less complex, easier to understand. There are no generally accepted reporting principles; everyone books revenue on a different basis. Evaluations are lower than for other technology sectors because the financials are so hard to understand and compare.

Can you give us an example of a first-rate IR program? What impresses you most in an announcement? What are the top mistakes companies make in an IR/ analyst relations program?

- Investors want to know what has changed since last communication. Each earnings release should outline what's different from the last one.
- Explain how things are changing and why the change is good. Executive have to be prepared to explain the trend.
- Prepare executives so that message is simple and consistent. Analysts don't want to take the time for complexity, and have no time to sort through varying messages.
- Keep press releases simple. Spell out acronyms.
- Fundamental currency for the analyst/ IR relationship is trust. Reliability, credibility, accessibility, trust.
- The title and first paragraph must be understandable to a 15-20-year-old
- You can assess the success of your IR efforts by logging the number of calls you get from analysts and the type of questions you get. Do analysts want to set appointments or actually talk about the company?
- If there is bad news, be truthful. Don't spin; don't mislead
- Don't assign IR to an appointment setter or communications facilitator. IR should be handled by someone who can handle questions on the phone, someone with a depth of understanding of the business.

At what point in the development of a startup should a company begin working with the financial community?

- Start talking to analysts as soon as possible.
- Can't be too early. Don't form a company and do a tour; let us know what's up from Day One.
- Keep analysts and bankers separate. For analysts, earlier is better – they need to picture of the industry, to keep their fingers on the pulse.

Are you only interested in publicly held company data?

- Even if we don't cover private companies, but we do want to keep abreast of what they are doing, because one day the startups will be public, too.
- Merrill Lynch does not invest in small companies.

Sometimes private companies are reluctant to speak to analysts because they only seem to want to know how public companies are vulnerable.

- Think of analysts as a resource to bounce ideas off. Don't just give information, also get it. Analysts can't violate confidentiality, so use their knowledge.
- Don't worry about giving information. It won't be attributed, and the analysts will remember you.

How important is it to have an 'official' PR or IR person interfacing between the company & the analyst/editor & the company – rather than just one of the executives in the company? Do you recommend that companies retain an agency specifically for investor and analyst relations, or that they combine it with public relations?

- Although it may not be important, or even possible, for a startup to have a separate IR department, the functions are different and the attitude is different. IR is a proxy for investors; PR is helping to get marketing messages to investors. IR understands that if one EDA company does well in the market, all will benefit. Attitude is more like real estate than any other market. PR is more of a zero sum game – intense competition for share of budget, share of published space, mindshare.

The market seems to want constant information. How do we balance that with PR needs?

- IR needs a plan to constantly communicate all new information to investors, and to show that something new is going on
- Drop news on a fairly regular basis, but it must be *real news*. Space communication, and don't put everything in one release

Tips to help make management simplify their story?

- Complex stories lead to bad valuations. Show them the data.
- Create messages on multiple levels, for various audiences. Use the more complex for the more technical audiences.

With the new post-Enron regulations, how is the wall between analysts and banking? How does this influence how analysts interact with the press?

- For independent analysts, relationship with press is no different. Wall St is trying to come up with standards, hoping that standards will make regulators go away.
- Regulation Fair Disclosure makes it harder to talk about anything except generalized stuff. If we talk about company-specific information, we have to file paperwork so that we are not seen to have inside information.
- Reg FD provides framework for what's happening. Makes a level playing field.
- Some investment bankers always had someone on the investment side and the analysis side. This kept analysts conservative.
- Relationships with companies depend on relationships with management. This is different today. On the IR side, it is necessary to give all the information to all the analysts, within the same timeframe.

- There have been procedural changes. Analysts can still talk to the press, but we can't comment on anything that has not already been published by a company. Once information is in print, we can comment and elaborate.

General comments from panelists:

- Vendors are not taking advantage of the ASIC to FPGA technology trend, but are instead talking about how there hasn't really been any change.
- The EDA industry needs to behave better (lawsuits, blurring the meaning of common concepts) to have better valuations