



IR *update*

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Ten Things To Keep in Mind When Writing an Annual Report

By Patrick Tuohy

This fall, investor relations and corporate communication professionals will be in the throes of producing their companies' annual reports. Here are some things to keep in mind as you begin brainstorming sessions to develop themes for this year's report. These pointers are the result of several years' research on how annual reports are received by investors and analysts.

Remember your readers. Annual reports address two audiences: investors who focus on the front section and want basic information about the company and its products; and securities analysts who read both sections to obtain financial data, check for consistency with other data sources, understand the image that management wants to convey and gain insight into management's thinking. Do not assume that either of these audiences is familiar with your industry. Care should be taken to write in plain English and define unfamiliar terminology.

Include the basics. Never assume too much background knowledge on the part of the reading audience. Investors often want the most elementary information about the company, and analysts unfamiliar with the company may find such basic information useful and expect it to be present.

Take into account preconceived ideas. Analysts read an annual report with preconceived notions about the company. Naturally, one's pre-existing opinions are somewhat resistant to change and are unlikely to be dramatically transformed by reading the annual report. There are so many different sources from which an analyst can gather information about a company that any single source has little chance of changing an impression. Have reasonable expectations, and avoid thinking you can overhaul a company's image in a single report.

Use the AR as PR. Annual reports are public relations efforts. Investors and analysts expect the company to put its best foot forward. Readers approach them with great skepticism and are hypersensitive to wording, omissions and any perceived discrepancies. Any problem that is mentioned is often magnified by readers as perhaps even more severe than the company admits. Take care to address challenges forthrightly without overstating them. Conversely, if no negatives are mentioned, many will suspect an attempt to hide damaging information.

Skimmed, not studied. Annual reports are often skimmed rather than studied. Extremely fastidious investors will read every word, but they are not the

majority. Most are impatient and want to be able to extract key messages quickly. Consequently, layered presentations, replete with bullet points, bold highlights, call-outs and other such devices are more easily digested.

Use repetition with variation. Comprehension of the report is enhanced when key themes are emphasized throughout the report. "Repetition with variation" is the classic tool of effective communication and is especially appropriate for material that tends to be skimmed rather than studied. At the same time, too much overt repetition can sometimes bother those important readers who read closely.

Achieve reader satisfaction. Satisfaction with an annual report is closely related to comprehension. Readers who do not understand a report quickly become annoyed. If the document is difficult to understand, the individual investor is likely to toss it aside. For that reason, readers want technical terms explained. Charts, photographs, captions and other graphic design elements are also powerful tools to improve comprehension, not just to make the publication look attractive. Annual report writers must strike a balance between the seasoned, knowledgeable investor and the novice, taking care to keep information sophisticated enough to please the former while simple enough to be understood by the latter.

Make it easy and convenient. Analysts and investors want the report to be easy to read and convenient to use, thus minimizing the mental energy needed to make sense of the contents. Busy, imaginative layouts can lead to confusion, and symbolism, irony and puns are often missed or misunderstood.

Profitability, products, plans. Both analysts and investors are mainly concerned with three things: profitability, products and direction. All are directed toward a company's future performance. Readers care surprisingly little about the past year. Historical data are of interest only to the extent that they offer clues about future success. Rather, readers want a forecast of future performance, not a retelling of past accomplishments. They want to know what a company produces and how that product affects them. Even for companies that make intermediary products, AR readers want to know what the final product is and how it touches consumers. Lastly, readers are interested in the company's future plans. The report should set up goals and explain how the company will use strategic objectives to meet these goals. An annual report gives a company an opportunity to offer an overview of its direction forward.

Remember, reports reflect top management. Annual reports are interpreted as reflecting the judgment of top management. The tone of the entire report, not just the chairman's letter, is thought to reveal much about the attitude and mindset of the company's leaders. In this vein, both analysts and investors are often repelled by an ostentatious annual report, preferring that it be attractive, but not lavish.

It is difficult to appraise your own report as the world sees it. As a result, annual reports often omit the very things readers want to know most. Knowing their interests and level of involvement should help you write a report that is full of pertinent information, presented clearly and to the point. **IR**

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