

Case Study on IR Presentations: Some Simple Lessons from Australia's Coles Group



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Why, if management presentations are recognized as more valuable to investors than annual reports, are the elements of effective investor presentations so rarely a topic of IR books and IR magazine articles? It could be because the industry involved in the design and production of annual reports is much larger than that involved in presentations.

Although the reason is not clear the result is. Other than the events of the NIRI, IRS and IRmanager.org the only way companies can learn how to make effective presentations is by observing the successes and failures of their peers. It is for this latter purpose that this case study takes a look at the Coles Group.

"Just trust me"

Coles has a 35% share of the Australian retail market which makes it Australia's second biggest retail group. Group sales which 2007 were almost Aus\$35 billion came from supermarkets, discount chains, liquor stores, convenience stores and an office supplies chain. I had been following the trials and tribulations of Coles ever since they botched an important company presentation to analysts in July 2006.

In mid 2006, Coles' CEO, John Fletcher, probably thought he had earned the trust of the markets. He had confounded his critics and led the group to a profit of just under Aus\$800 million that fiscal year (June year end). Back in 2001 Fletcher had announced that figure as the target for his first five year strategic plan. Coles would have to more than double profit to hit the target Fletcher was tipping which looked at the time very ambitious. But he

had done it and Aus\$1,000 invested in Coles shares in 2001 was worth Aus\$2200 in mid 2006.

Now, with the target achieved, Fletcher was ready to present to analysts and investors his strategic vision for the next five years. But unlike in the last plan this time he had no intention of setting specific financial targets beyond the coming twelve months. Analysts invited to the presentation were apparently told they didn't need to bring their calculators because no numbers were being presented. The message was: just trust me.



John E Fletcher,
CEO and Managing Director

The Coles presentation flopped and the share price fell 10%. Fletcher was heavily criticized for not providing firm financial targets. His "just trust me" premise was the exact opposite of what analysts and investors wanted to hear.

Private Equity Targets Coles

Australia is awash with private equity money so if you are managing an Australian company that has low debt levels and owns leading brands it's dangerous to stumble. Coles had stumbled and a consortium led by Kohlberg Kravis Roberts was there waiting to pick them up. KKR proposed, on August 18, a friendly takeover of Coles at Aus\$14.50 per share, subsequently lifted to Aus\$15.25.

In early September, the board of Coles announced their response to the KKR proposal. According to the letter to Coles' shareholders, the proposal substantially undervalued the company and was "highly conditional". The press release sent out at the time described the consortium's timing and indicative pricing as "highly opportunistic". It was in that case an opportunity at least partly of Fletcher's making.

Fletcher Tries Again

Just over a month after the KKR bid Fletcher formally presented the fiscal 2006 profit numbers, he also embarked on a second attempt to explain his five year strategy. This time the briefing was very detailed. Over three hours the company presented a profit report of almost 50 pages and gave a 150 slide presentation complete with numbers.

The presentation highlight was Fletcher's commitment that Coles would

make a profit of Aus\$1.07 billion in the 2008 fiscal year. To achieve this Coles would slash 2,500 jobs or about one third of above-store personnel. This would save Aus\$363 million a year. The reductions would be made possible by a radical simplification of Coles to a "one brand" strategy for the group's food, liquor and convenience store formats.

Although the market now had the numbers they were craving things still weren't good for Coles. This time the problem was with the numbers themselves. They just weren't believable and that was despite the fact that senior executives were giving up 10% of their pay packages in exchange for bonuses linked to the forecasts.

Coles was confident it would make Aus\$1.07 billion in 2008, but the best any analyst could see when forecasts were updated after the presentation was Aus\$1.02 billion (UBS). The revised consensus was 11.5% below the Coles target. Only the ABN Amro analyst thought like UBS that Coles could break Aus\$1 billion. The lowest forecast for 2008 was Aus\$894 million from the Citigroup analyst and he had a lot of company just above that level.

Here are some quotes from analysts at the time:

"We don't believe delivering the profit growth targeted is achievable... If anything, we believe that Coles Myer will suffer a retraction in profits before an increase"

(David Errington, Merrill Lynch & Co)

"We have our doubts about the probability of success because the company is undertaking an unprecedented level of change while reducing its overall head count".

(Craig Woolford, Citigroup)

"There's always a risk with job cuts that in the short term you reduce expenses, but in the long term, does that damage the business' ability to deliver to the customers' needs? I think that's certainly a risk."

(Rob Huth, State One Stockbroking)

From hero to zero

The concerns analysts had about the achievability of Fletcher's forecasts proved well founded. Coles released a market update on February 23, 2007 that included a 10% downward revision of earnings guidance for FY2008. The new expectations were just above analyst consensus numbers. It was clear that Coles' strategy wasn't succeeding as expected and the board of directors announced that they were reviewing ownership options. It looked like Fletcher was throwing in the towel because he would be personally overseeing the sales process and would no longer be directly in charge of Coles' retail businesses. In less than seven months Fletcher appeared to have gone from hero to has-been.

Outcome: the takeover of Coles

On the 23rd of March, 2007 the Board of Coles announced that it was looking for a buyer for the business. On the 3rd of April, Solomon Lew, the former chairman and long-time antagonist of the Fletcher management team, sold his 5.8% shareholding in the company. A large portion of these shares were bought by Wesfarmers. The next month Coles reported the group's slowest sales growth in seven years. In July Wesfarmers announced it intended to buy Coles and on November 23, 2007, Coles shares traded on the Australian Securities Exchange for the last time. The assets of Coles are now owned by Wesfarmers.

Discussion Question

Coles' executives clearly weren't aware of the basics of effective message delivery.

The basics of effective message delivery are as follows:

- Know your audience
- Have clear objectives
- Get to important points quickly
- Understand the strengths and weaknesses of your message channels
- Make the most of market feedback
- Resist the temptation to overreach

Neglect of which of the above list of basics do you think most contributed to the demise of John Fletcher and Coles?

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