

VIEWING A LOCAL COMPANY IN CONTEXT

How it Fits into the Community, Economy and Markets

Covering Companies

- They are the backbone of a business section's coverage.
- But we write about companies in different ways. It can also be important to write about the regional economy, local stocks or the community when focusing on company coverage.
- Report on local companies within the bigger picture.

The Community

- Businesses are involved in their local communities in ways the media often ignore.
- Businesses, for example, are often major buyers and sellers of real estate.
- They are also major employers and major spenders of money.
- Real estate records
 - Real estate transactions are recorded at the courthouse.
 - Large real estate transactions should be stories. First, decide: how large is large?
 - With big plots of land being sold – 100 to 200 acres, for example – are they being bought by a developer?
 - This information can be found through county tax assessors' offices online at: <http://www.netronline.com>. (searchable by individual and company names)
- Lawsuits
 - Businesses and people often sue each other for breaking contracts, not paying bills, etc.
 - Employees and former employees have also sued companies.
 - Divorces, particularly those of executives, often have good information about businesses owned and personal assets.
 - These can provide great detail about companies.
- The Census
 - The Census could be used to write a story that affects your business community once a week until the next census comes out in 2010.
 - Did you know that females outnumber males in the workforce in many counties?
 - Did you know that about 5 percent of the workforce is self-employed and works at home now?
 - This information can be found online at: <http://factfinder.census.gov>.
- Layoffs
 - Employers who are laying off or firing workers are required to disclose such moves 60 days before they do it, according to the Worker Adjustment and Retraining Notification (WARN) Act.
 - This is a document filed with the Department of Commerce division of employment and training (State Dislocated Worker Unit).
 - Contact your local Commerce or Labor Department regularly to check for WARN Act filings. You can ask the agency to e-mail you alerts of filings.

The Community: Layoffs (cont'd)

- An employer must give notice if a plant will be shut down, resulting in an employment loss for 50 or more employees during any 30-day period.
- An employer must also give notice of any mass layoff that does not involve a plant closing, but will result in an employment loss at the site during any 30-day period of 500 or more employees, or of 50-499 employees if they make up at least 33 percent of the employer's active workforce.
- Benefits
 - Many small businesses struggle to provide benefits such as health insurance and retirement plans for their workers.
 - Talk to small business owners in your community about what they're offering workers. Has it changed recently?
 - Do workers have to help pay for health coverage? How much?
- Consumer spending
 - Consumers account for nearly 70 percent of the gross domestic product with their purchases from companies.
 - What are consumers doing now in your area? Are they spending more or less?
 - Some interesting statistics on a county basis, including total retail sales and retail sales per capita, from the Census bureau are available at:
<http://quickfacts.census.gov>.
- Local jobs
 - During the past 20 years, more than 40 million new jobs have been created in the United States, according to census data.
 - Interview a sample of people in your community and find who is taking these new jobs.
 - Tell their stories. Did they move to the community to find the job? Why did they move to your specific town or city?
- Small businesses
 - About half of the people in the labor force work for companies with fewer than 10 employees.
 - These companies rarely make news, yet they are the most dynamic companies in the country.
 - Find some interesting companies in your community and tell their stories.
 - Information on how your community compares to the rest of the country at:
<http://money.cnn.com/best/bplive/index.html>

The Markets

- How do investors decide what stocks or bonds to buy?
- The same tools they use can be useful for business reporters writing about companies as well.
- Use these tools in your stories, and you will catch the attention of your readers as someone who knows what he or she is doing.
- Total return
 - Total return or total loss tells the reader how well the stock has performed for an investor.
 - Calculate by dividing the change in the share price by the investment cost.

The Markets: Total return (cont'd)

- Example: Someone purchases \$10 stock, and the price rises to \$15/share.
 - Total return is 50 percent ($\$5/\10).
 - When was the last time you wrote a story that included a company's total return compared to the industry or overall market?
- Book value
 - Book value is an important barometer for value investors who are looking for cheap companies. This tells a reader how the market values a company.
 - Calculate by dividing the net worth or shareholder equity by the number of outstanding shares.
 - Example: There's \$250 million shareholder equity in a company with 10 million shares outstanding.
 - Book value is \$25/share.
- Price/earnings
 - A price-to-earnings ratio, otherwise known as a P/E multiple, tells investors how much they are paying for each dollar of company earnings.
 - Calculate by dividing the stock price by current or projected earnings per share.
 - Example: Company has \$30 stock with 2004 EPS estimate of \$1.50/share.
 - Its P/E multiple is 20.
 - Compare that multiple to how other companies and competitors in same industry are valued by investors. That's a valuable barometer for readers.
- Net profit margin
 - Net profit margin shows how profitable a company is.
 - Calculate by dividing the net income by total sales.
 - Example: Company with net income of \$25 million on \$500 million in sales.
 - It has a net profit margin of 5 percent.
 - Again, compare this number to similar companies in same industry. (For instance, Coca-Cola has higher net profit margin than PepsiCo. Why?)
- Initial public offerings
 - A private company allows its stock to be purchased by the public in an offering that begins trading of its shares on a stock market.
 - Companies must register to sell shares and reveal financial information to the Securities and Exchange Commission before an IPO is approved in a Form S-1.
 - Initial filing will not have the stock price that the shares will be sold for. Look for amended S-1 filings.
 - Have similar companies gone public recently? At what price? This is a good comparison to make when writing an IPO story.
 - Eight things to include in any IPO story:
 - Price of the stock
 - Amount/proceeds to the company
 - What the company will do with the money
 - The underwriters' names
 - The company's financial performance before the IPO
 - Risk factors
 - Corporate strategy
 - Offering price compared to book value

The Markets: Initial public offering (cont'd)

- The “offering price” is the price at which the company says its shares will be sold to IPO investors. The lead underwriter sets this price.
- The “opening price” is the price at which the stock of the company starts trading on the open market. Often different than the offering price.
- After the stock begins trading, there is something called a “quiet period,” when the company and the underwriters are extremely limited in what they can say.
 - SEC regulation that prevents them from hyping the stock. Lasts 25 days.
 - Once this ends, you typically see analysts from underwriting firms issue “buy” or “outperform” ratings on the company.
 - In the meantime, find analysts not working for the underwriters.
- Dividends
 - Some companies will offer dividends to investors who own their stock.
 - They’ll pay shareholders quarterly, or reinvest dividend payouts into buying more stock as a way to make themselves more attractive to investors.
 - Example: 1,000 shares with 25 cent quarterly dividend on each share = \$250 every quarter.
 - It’s bad news when a company cuts or stops its dividends, or sells that stock. This is a big story.
 - Maintaining dividends is typically a brief.
- Analysts
 - A sell-side analyst works for an investment bank, not typically independent.
 - This is in contrast to a buy-side analyst, who works for institutional investors or portfolio managers at mutual funds.
 - Analysts make money by offering ratings to the buy-side and stock recommendations. They hope to convince these investors to trade stocks with their firm.
 - Both can be valuable sources for company stories.
 - But are they objective sources?
 - Many in the past had conflicts due to investment banking and other relationships with the companies they covered.
 - Many now are disclosing those conflicts in the company reports that they write.
 - Do you disclose those relationships in your story?
- Mutual funds
 - Mutual funds are investments where the risk is theoretically lowered because the investor is buying a group of stocks instead of one. More than 8,300 mutual funds.
 - Mutual fund managers are among the largest investors in the stock market. Total of \$8.5 trillion in early 2005.
 - Mutual fund managers can be good company sources as well.
 - In return for managing your investments, mutual funds take a fee, or an expense ratio, to cover their expenses.
 - Mutual funds operate with different investment strategies. There are market index funds, sector/industry funds, growth funds, value funds, geographical funds, return funds and hybrid funds.
 - Also money market funds and bond funds.

The Markets (cont'd)

- Hedge funds
 - Considered the evil stepsister of mutual funds.
 - Unlike mutual funds, these are not regulated by the SEC. The commission is considering regulating hedge fund managers as investment advisers.
 - Also unlike mutual funds, the fund manager has an investment stake in the fund he's managing.
 - Hedge funds managers, if you can get them to talk, are also great company sources. (Google "hedge fund performers" or search Bloomberg terminals)
 - The hedge fund concept:
 - ABC Hedge Fund has \$10 million to invest. \$8 million comes from investors and \$2 million from the fund manager.
 - Fund goes to the bank and borrows \$10 million, so it now has \$20 million to invest.
 - Let's say that \$20 million is then invested in a stock at \$50/share. So the fund bought 400,000 shares.
 - If the stock goes up to \$60, the hedge fund has \$24 million. It pays back the bank its \$10 million plus interest and still has ~\$14 million to repay investors.
 - But what if stock goes down to \$40. Hedge fund has \$16 million. It still has to repay bank \$10. What's left is \$6 million to repay investors.
 - So in that case, original investors are being paid 75 cents for every \$1 they invested.
- Short selling
 - Short selling a stock is betting that the price of a stock will fall.
 - An investor who borrows shares of stock from a broker and sells them on the open market is said to have a short position in the stock.
 - If the stock price rises, then the investor will have to buy back the stock at a higher price.
 - Short sellers make great sources for companies as well. It was a short seller that tipped *Fortune* magazine's Bethany McLean off to look at Enron.
 - Example: Let's say an investor shorts (so borrows) 1 million shares of a \$10 stock. The investor sells the shares and puts \$10 million in wallet.
 - If the stock drops to \$8, the shares are now worth \$8 million. Investor takes his money out of his wallet and buys back the shares he's borrowed. His profit is \$2 million.
 - But if the stock rises to \$12/share, then the investor has to pay \$12 million to buy back those shares, and he has lost \$2 million.
- Bonds
 - A bond is an IOU between an issuer and an investor.
 - The issuer sells bonds to raise capital and pays interest over the life of the bond, as well as the principal investment at the end of the term of the bond.
 - If price goes up, then yield goes down. If yield goes up, then price goes down.
 - Companies raise money to build plants, pay off other debt, make an acquisition.
 - Large companies have multiple bond issues traded on the market.
 - Government sells bonds to pay to build roads, hospitals, new sewer plant, etc.

The Markets: Bonds (cont'd)

- Treasury bonds considered the safest investment in the world.
- Example: A company issues a 10-year bond with a face value of \$1,000 and a yield of 7 percent.
 - That means that every year for the next 10 years, the company pays the bondholder \$70 in interest.
 - At the end of the 10 years, the company pays the investor back the \$1,000.
- Bond ratings
 - Downgrades and upgrades of bond ratings can be major news stories.
 - Main firms: Standard & Poor's, Moody's Investors Service, Fitch Ratings
 - State of North Carolina recently lost its AAA rating. Meant the state had to spend more money when it borrowed money for construction projects.
 - Companies don't like for their bond ratings to be lowered.
 - Higher the rating, lower the yield they must pay. Low rating = high yield.
- Bonds vs. stocks
 - If you're writing about the stock price of a company, it can be valuable information to tell readers how the bonds are doing as well.
 - Many times, bond prices don't fall the way stock prices do. Why is that?
 - In bankruptcy court, bondholders are repaid before stock investors.

The Economy

- Looking at state and federal economics reports can tell you a lot about companies on your beat and their future performance.
- All companies are affected – either positively or negatively – by what is happening in the economy.
- Don't just write about the economic reports, write about how local companies are changing plans due to what is happening in the economy.
- The Fed and companies
 - The Federal Reserve is involved with monetary policy. This means they raise and lower interest rates to affect the economy.
 - The Fed will raise rates to try to slow economic growth when it believes the economy is growing faster than it should.
 - The Fed will lower rates to stimulate economic growth.
 - What it means for companies:
 - Its decisions affect how much companies spend on their business.
 - Higher interest rates means that the rate that Joe Six-Pack pays on credit cards, home loans, car loans – any type of borrowed money – will go up.
 - Lower interest rates means that the rate he is charged will go down. Could lead to consumers refinancing home loans, for example.
 - Other Fed stuff
 - Fed's monetary policy report given twice a year to Congress.
<http://www.federalreserve.gov/boarddocs/hh/>
 - Fed Beige Book gives anecdotal information on how regional economies are performing. Published eight times a year.
<http://www.federalreserve.gov/boarddocs/hh/>
 - These have great examples of businesses and their spending patterns.

The Economy (cont'd)

- Gross domestic product
 - It's the measure of all goods and services produced in the economy.
 - Federal GDP is measured by the Bureau of Economic Analysis. Data is released quarterly. <http://www.bea.doc.gov/bea/dn/home/gdp.htm>.
 - Consumption (69 percent) + investment (15 percent) + government purchases (18 percent) + net exports (-3 percent) = GDP.
 - What it means for companies:
 - If the GDP is rising at a strong rate, that may encourage the Fed to raise interest rates to slow growth.
 - Slow GDP growth could mean that workers might lose their jobs. Companies will want to produce less if consumers are buying less.
 - Localize this information with gross state product statistics.
 - <http://www.bea.doc.gov/bea/regional/data.htm>
- Gross state product
 - Gross state product can also be broken down by individual industry, giving your writing some context.
 - Example: “The aviation industry is 8 percent of the state’s gross product, up from a year earlier due to the increase in production at Boeing’s plant.”
 - <http://www.bea.doc.gov/bea/regional/gsp/>
- Unemployment
 - Monthly employment statistics come from the Bureau of Labor Statistics. <http://www.bls.gov/news.release/empsit.toc.htm>
 - Released on the first Friday of the following month.
 - Employment is typically the single most important report for the markets because it is released with a short lag and full of new vital information on the broader economy, as well as on individual sectors.
 - How is it measured? Monthly interviews with 60,000 households (Household report) and survey of 350,000 businesses (Establishment report) with 39 million workers – including some in your area.
 - Unemployment is perhaps the easiest economy story to localize. Go out and find companies who are hiring or laying off workers. Compare that to any earlier stories that include any hiring plan announcements by that company.
- Inflation
 - Inflation is the overall general upward price movement of goods and services in an economy.
 - Inflation affects the spending power of investors and households. Maintaining price stability is one of the stated objectives of the Federal Reserve.
 - Deflation is when prices of goods and services decline.
 - The Bureau of Labor Statistics issues the Consumer Price Index (inflation experienced by consumers in their day-to-day living expenses) on a monthly basis at: <http://www.bls.gov/news.release/cpi.toc.htm>
 - The CPI is one of the most widely recognized price measures for tracking the price of a basket of goods.
 - Are local companies raising or lowering prices?

The Economy: Inflation (cont'd)

- Company-specific prices
 - There is also something called the Producer Price Index. Also comes from the BLS. <http://www.bls.gov/ppi/home.htm>
 - The PPI measures prices received by producers at the first sale of raw materials. Also measures prices at three stages: finished, intermediate and crude. But the index for finished goods receives the most attention.
- CPI vs. PPI
 - The CPI covers both goods and services, while the PPI just covers goods.
 - The CPI covers costs facing consumers, while the PPI covers purchasers and wholesalers.
 - CPI does include water and sewer service and sales taxes, but not income taxes or investments. Food and energy are large components of PPI.
- Productivity
 - Productivity is also measured by the Bureau of Labor Statistics on a quarterly basis. <http://www.bls.gov/news.release/prod2.toc.htm>
 - The higher the productivity, the more efficient companies become in producing goods while holding down costs.
 - Output (goods and services)/Input (number of worker hours).
 - What it means for companies:
 - Businesses may try to get away with making workers perform at higher levels or for longer hours without raising pay to increase productivity.
 - If productivity is increasing, that could mean that the people in your readership area are working longer and harder for not as much pay.
- Trade
 - Trade between the United States and foreign countries is measured monthly by the Census Bureau. <http://www.census.gov/foreign-trade/www>
 - The United States last had a trade surplus in 1975. In 2004, the U.S. economy imported more than \$450 billion more in goods and services than it exported.
 - What it means for companies:
 - Is there an area manufacturer competing against a foreign company?
 - Many U.S. businesses rely on selling goods to needy overseas countries.
 - Coca-Cola – the most American company there is – sells 70 percent of its soft drinks outside of North America.
 - Biggest deficit is in automotive and consumer goods. We're actually a trade surplus nation with services.
 - Bureau of Labor Statistics also compiles an Import and Export Price Index that is released monthly. <http://www.bls.gov/mxp>
 - This measures the price of goods and services imported or exported from the country.
 - It reflects changes in the prices paid by importers or the prices at which exporters sell their goods.
- Purchasing Managers Index
 - This is a monthly report that tracks what companies are buying and how much they spend on materials they need to operate. It's issued by the Institute of Supply Management. <http://www.ism.ws>

*****This handout is supplemental material – Used at discretion of presenter*****

The Economy: Purchasing Managers Index (cont'd)

- Manufacturing report comes out on first business day of the month. Non-manufacturing arrives a few days later.
- Manufacturing report receives the most attention. It has a track record in marking turns in economic activity.
- What it means for companies:
 - The PMI looks at items like backlog of orders, perception of inventories, manufacturer prices paid, employment, new orders and export orders.
 - These factors could be affecting local manufacturers. Call several of them to see if they are happy with inventory levels and orders.
- Durable goods orders
 - Durable goods and factory orders are compiled by the Census Bureau on a monthly basis. <http://www.census.gov/indicator/www/m3>
 - This report measures manufacturers' shipments, new orders, inventories and unfilled orders.
 - Durable goods are those with an expected life of at least three years – machines, computers, furniture, appliances.
 - What it means for companies:
 - Purchases of durable goods can easily be postponed when spending power or consumer confidence weakens.
 - They're much more cyclical than non-durable goods, such as food.
 - Go interview retailers, such as the local furniture store or Circuit City, to see how their sales are going.
- Retail sales
 - Retail sales are reported on a monthly basis by the Census Bureau. It is released around the middle of the next month and compiled from 11,000 retailers.
 - It measures the dollar value of sales of both auto and non-auto goods by retailers, as well as restaurants.
 - Auto is about 25 percent of total retail sales.
 - Reporters focus on increase in total spending. Story is written on the year-over-year change in the data.
 - Major retailers such as Wal-Mart and Target often release their individual results before the Census Bureau.
 - Census Bureau is also compiling data on E-commerce sales on a quarterly basis. <http://www.census.gov/mrts/www/current.html>

COMPILED BY:

Chris Roush, assistant professor and director
Carolina Business News Initiative, College of Journalism and Mass Communication
University of North Carolina at Chapel Hill
croush@email.unc.edu