

ON BEYOND INVESTING

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Special Report

Shareholder surveys - an underused tool

I want to tell you about a little-known investing tool that I recently used that I think more investors should be aware of. The tool is shareholder surveys. With tremendous help from my friend (and I should disclose, newsletter subscriber), Gary Lutin, who runs the [Shareholder Forum](#), myself and two other professional investors (one of whom is also a subscriber), launched a shareholder survey for our fellow Otelco (ticker: OTEL) shareholders. The goal of the survey was to gain insight and a better understanding of what the other OTEL shareholders thought about the company's financial policies and business strategies. This was a fascinating process, and it has convinced me that surveying shareholders is a tool that more investors should be aware of and should use.

With a shareholder survey, any shareholder can reach out to other shareholders of a company to solicit their opinions on the company, and ask for comments that will be forwarded to the company's management team and board. The participants' responses and comments are kept anonymous, and the survey is independently operated, in our case by the Shareholder Forum. These surveys can reach shareholders through the various brokerages where the stock is held and the distribution can be tailored to be sent to all shareholders, like we did with OTEL, or to just large holders if a quicker process is needed, like in the event of an upcoming transaction. Shareholders get a link to the survey, and they can then answer (or not) all of the questions that the initiator asks. To see an example, you can view the survey that we sent out to fellow Otelco shareholders [here](#).

Surveys provide shareholders with the an opportunity

to openly discuss ideas. While shareholders should be constantly discussing their mutual holdings, this open dialogue is often much less frequent than would be imagined because many shareholders are wary to be seen to be working together (which would require SEC filings indicating a group). So even in situations where conflicting opinions and open discourse is desired (or required), investors can be hesitant to speak. These surveys, and their anonymity, can alleviate those concerns.

I chose OTEL as a company where a shareholder survey could be useful because it is a company whose prospects are changing. My reasons for the survey were quoted in the final report prepared by the Shareholder Forum:

This survey was initiated to answer a simple question I had: what do the shareholders of Otelco want the company to do?

This question is a necessary one to ask now because Otelco is transitioning. It was a company with too much debt and limited discretionary income. Management has successfully turned the company around and it is now a company that is generating a large amount of discretionary income. What should the company do with this cash? It is often assumed that shareholders want dividends. I wanted to ask the shareholders directly to see if this was true.

OTEL's credit agreement allows the company to begin to pay dividends when the firm's leverage falls below 2.5x EBITDA (earnings before interest taxes, depreciation & amortization). By my calculations, OTEL will meet this measure sometime in 2019. A key element to my investment thesis is knowing what the company will do when they reach this target. My personal view is that shareholders would benefit from

even more deleveraging. My logic is that de-risking the firm would mean a much higher, and safer, stream of dividend income in the future. This higher and safer dividend yield would, in my opinion, likely maximize shareholder value. However, my opinion is just one of many. I wanted to hear from the other shareholders to see what they thought.

The survey was launched in on October 29th, 2018. Shareholder Forum analyzed the results, which were presented to Otelco on November 19th, 2018. My summation of the results was quoted in the report:

The responses were very interesting. It is clear that the shareholders of Otelco have a long-term approach and a more nuanced view of cash uses than dividends. Shareholders state a preference for reinvestment in the business, followed by share buybacks and the payment of dividends. The other consistent theme is debt reduction. Shareholders like the idea of de-risking the balance sheet now to allow for a more secure stream of dividends in the future. This approach makes sense to me, and I am encouraged by the long-term perspective of my fellow shareholders.

For those interested in reading the report, you can see the full version [here](#) and a full list of submitted

comments by shareholders [here](#). I thought this survey was a tremendous success. It allowed all those who participated to clearly express their views, and now the management at OTEL is fully aware of what its shareholders want.

I think this survey was also interesting because while certain themes were clear and aligned with my preferences, there were also shareholders with very different opinions and I think it is important to keep those in mind too.

There are clearly many other applications for this survey tool. While I think OTEL management team is doing an excellent job, you can easily see how a tool like this can be used in situations where management is performing poorly or where governance is poor. A survey tool may work well to let other aggrieved shareholders know that they aren't alone and that perhaps there are enough concerned shareholders that change can be advocated for.

This is a tool that has not been used much, and isn't well known, and I think there are many more useful applications of shareholder surveys that we will see in the future. Please reach out to me if you have any questions.

ABOUT

I have 12 years of experience as a trader on a Proprietary Credit trading desk in New York and Toronto and at hedge funds in Toronto. In that time, I traded and invested in all asset categories - bonds, derivatives and equities - globally. Wanting more freedom, I decided to focus on managing my own portfolio and investments. I enjoy reading, learning and thinking deeply about markets and investments. When not investing, I spend time with my wife and son in Copenhagen.

INVESTING STYLE

My investing style focuses on value; buying good companies well below fair value or finding mispriced securities with a lot more upside than downside. This approach is a disciplined one with a long-term focus. I am opportunistic and focus on areas of the market where recent volatility or apathy may create interesting investments.

CONTACT

I love discussing markets and investing ideas. Please reach out to me with any questions, comments, or thoughts on newsletter ideas or ideas of your own. Reach me at: tim@onbeyondinvesting.com

SUBSCRIPTION

Yearly Subscription Rate: \$500 Cad (including GST).

A subscription includes 10 to 12 issues per year.

All issues will have two interesting and actionable investing ideas. Issues also include updates on companies, interesting articles I have been reading and general market musings.

The goal of the newsletter is to give readers a view of markets through the eyes of a portfolio manager. I aim to educate readers on how a portfolio manager approaches markets, evaluates companies, and thinks about investing. Investment ideas provided will reflect my value investing style.

Find more info at:

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