



Markit Perspectives II: March 24, 2020

Expectations for IR teams (during market turbulence)

IHS Markit's Perception Analytics team engages in in-depth discussions with investors and analysts daily. Given recent market volatility and significant economic uncertainty, IHS Markit will be speaking to investors and analysts on a regular basis over the next few weeks to assess how the current situation with COVID-19 is impacting their evaluations of and engagement with corporate issuers.

During this unprecedented time, it is critical for Investor Relations teams to adapt to the evolving market landscape and strengthen their roles as conduits for their companies. **The second topic we elicited feedback on is how IR teams should be communicating and engaging with the Street during this time of market turbulence.**

The Street is increasingly focused on efficient capital management, reducing cash burn, and maintaining balance sheet strength, particularly for highly levered companies. Management and IR teams should be addressing their capital strategies first and foremost.

- “It is still early at this stage for IR to communicate anything. However, **when the market turns over like this, a lot of people get concerned about the strength of the balance sheet and whether management teams are really understanding how bad things could get in a worst-case scenario.** A lot of criticism from 2008 was that management teams were way behind the curve. Hopefully this situation passes by in one to two quarters, but good management teams would understand that when the market drops by as much as it has, end markets are falling apart, and investors hope they are really focused on the strength of their balance sheets. Investors also want to see that management teams understand the different scenarios and communicate how they intend to manage through the period.” *Analyst, Boutique US sell-side firm*
- “It is important for companies to address what their cash burn mitigation strategies are. **I hope most management teams are sitting down right now and thinking what they can do to preserve cash over the next 3-6 months** by looking at what they can cut or push out. It would be good for firms to give investors a sense for what they are doing in this regard.” *Analyst, US investment manager (>\$50M EAUM)*
- “**As long-term shareholders, if management comes out and explicitly recognizes the low stock price and announces a bigger share buyback authorization, that always gives us greater confidence that the team is actively thinking about the best way to deploy shareholder capital.** We also like to see insider buying when a stock is hit hard. A good number

of the companies that we cover have done that. One company we cover got hit pretty hard last quarter and the coronavirus fear has not helped it. We still think it is a great business. We have seen insiders step in and buy some shares. During the Q4 call, the firm said that the stock is down a lot and it is actively considering doing more buybacks. It actually announced a big authorization a few weeks afterwards with the recent drawdown on the name and the overall market. This shows its conviction to doing that, now that it is even cheaper than earlier.” *Analyst, US investment manager (>\$10B EAUM)*

- “Capital markets are extremely unstable. Whether it is high frequency algorithmic traders or hedge funds that are managing long-short strategies, it is becoming obvious that companies that have weaker balance sheets or higher cash burns are increasingly coming under the spotlight. People are doing the cash burn arithmetic and are looking to see when a company may or may not need to do a capital raise. As strong as the business fundamentals are or the intellectual property is, we need to know that companies can weather the storm without returning to the equity market. Therefore, **the first thing that IR teams need to do is to get investors to understand that although there is a severe backdrop, they are going to be able to weather the storm** and reign in OpEx to get through it rather than having to suffer any poorly structured financing options.

Generally, **I would encourage IR departments to not be coy about the cash burn situation because investors are doing the arithmetic.** People need to know how agile a company is regarding the finances to be able to insulate itself from really bad capital markets. At the end of the day, this will subside; and the market will return to normal within time. The question is just where is everything going to be once things equilibrate?” *Analyst, Boutique US sell-side firm*

A couple of participants suggest that, if appropriate, IR should highlight how their business is positioned to respond to the rapidly changing needs of their end customers.

- **“What happens in times like these is that really innovative new approaches tend to gain share because people are in a state of emergency.** Thus, people are willing to think differently and try new things, whereas they may not have had that sense of pressure beforehand. For example, telemedicine is really taking off in a time like this as are things related to remote working. We are basically in an international work-from-home experiment that is testing backend infrastructure. Healthcare is another good example. Some of the companies that I follow have figured out ways to use AI or autonomous delivery of medical supplies because that is what is required right now. Therefore, I believe that **innovation will gain traction at a time like this.** It is going to take time, but once the cooler heads prevail, and when people are no longer as concerned about the immediate shock and awe, they will realize that the companies who have gained share during this time did so because their offering became a matter of necessity.” *Analyst, Boutique US sell-side firm*
- “To the extent that companies can legitimately talk about the benefit of their products in this environment, without being speculative, they should.” *Analyst, US investment manager (>\$1B EAUM)*

A few respondents suggest IR teams should acknowledge that it is currently impossible to know exactly what the ultimate impact of the crisis is going to be given the level of uncertainty.

- “IR teams should be responsive to questions, but I do not think they need to be putting out a daily update. We have been telling our team internally that CEOs, and by default their IR people, are going to report to us on what has happened. They are going to sugarcoat it and tell us that they are well-positioned. Therefore, we have been telling our teams to not waste their time asking management teams about the coronavirus. It is our job to predict how it is going to impact companies and what they are going to tell us on the Q2 conference call when they miss numbers. They are not going to tell us now, so I would not encourage management teams to have their IR teams call me and try to hold my hand. I do not think that is necessary. **But it would be great if IR teams would communicate in real time or as close to real time as possible to say, for example, ‘This is having an impact and we do not know how big the impact is going to be. But it is having an impact and you should not rely on any guidance that we put out in the last six weeks.’** I think all companies in my universe are doing the same things. These companies are putting out guidance and telling us that there is some coronavirus impact in there, but they do not quantify how much it is, and it is all subject to change.” *Portfolio manager, US investment manager (>\$10B EAUM)*
- “It is a company-by-company issue; but, to the extent that they know and that there is specific information, communication is critical. It is very hard for an IR team to come out and say anything definitive right now regarding the crisis because we are just at the outset. That said, when we start doing earnings calls at the end of April, what we are hoping for is that there is going to be somewhat better information and that IR will be able to give a little bit more color on how they expect 2020 to play out given what is going on with this virus. We do not know yet, but expectations are already tempered. Therefore, **it is appropriate for companies to give their best estimates of the effect. However, it is a temporary issue and they need to communicate not only what is happening in the business, but how they are going to manage cash flow to get through the crisis.**” *Portfolio manager, US investment manager (>\$10B EAUM)*
- “The more information that IR can give, the better. But, it is difficult because it is still early days to work out. If IR could talk about how it might affect results, that would be quite good. Which business lines are going to be exposed?” *Portfolio Manager, APAC investment manager*
- “There are some companies that are saying ‘We do not know what the impact is going to be. Consequently, we think that we can make our 2020 numbers.’ Then there are other companies that are saying ‘We are definitely going to make our 2020 numbers.’ I find certainty right now to be a bit off-putting because it is almost not credible. **It is much easier to have confidence in a management team that is saying ‘Since we do not know what the impact is going to be, we are not going to speculate.’**” *Analyst, US investment manager (>\$1B EAUM)*

Participants stress the importance of IR teams being both proactive and responsive during periods of volatility. When there is news to share, IR should be reaching out. Equally important, IR needs to be highly available and responsive (rather than evasive) to provide investors with reassurance.

- **“The number one thing for IR teams in a time like this is responsiveness.** We are reaching out to all our companies with questions and it is troubling when people do not respond. Uncertainty makes stocks go down and when IR teams do not respond to questions, it makes things worse. **Even if IR does not have an answer, it should write back and say that it does not know but that it will try and get the answer.** I am shocked that there are some IR teams that are just not responding. Therefore, being responsive is the most important thing.” *Analyst, US investment manager (>\$50M EAUM)*
- **“In these situations, smart IR teams do considerable outreach.** A company that I own made a small divestiture three days ago and I emailed IR two days ago to ask if they had a few minutes to talk about it. We set up a call and the CEO and CFO joined. The underlying purpose of the call was for the CEO to tell me that everything is fine. This was a great, great idea from the IR team. I did not ask for the call and I did not ask to be reassured that everything is fine, but it was great to hear from those executives.” *Portfolio manager, US investment manager (>\$500M EAUM)*
- “Two or three European companies have noted when their factories shut down, but I have not seen a US company note that. That might mean that US factories have not yet shut down but knowing that would be quite helpful. I believe that management teams are a little bit stuck. When this happened in 2008, people got quite dicey about talking to the Street. Therefore, **IR teams should take advantage of virtual conferences.** If the factory shuts down, companies should tell people that the factory is closed because they are worried about the safety of their employees. I believe that IR teams and management will probably be a little bit more cautious about talking to people individually because we are entering a quiet period soon and because everything is material at this point. Therefore, **IR teams need to take advantage of anything they can do in terms of being proactive with their communication, if and when they have something to announce.** For example, one firm just put out a press release detailing its credit agreement and the stock did not go down. That was a positive and a good thing to see. Any communication in a period of uncertainty is not bad.” *Analyst, Boutique US sell-side firm*
- **“One of the tools that we used this week that I think is helpful is hosting conference calls using a virtual meeting format where I was able to ask the management team a series of questions.** Those are the kinds of things that make sense to engage in to make sure that companies are out there, and that people are hearing the message. It is very difficult because everything is so fluid. I know that IR teams are going to be somewhat limited in terms of what exactly they can say. But, to the degree that they can, at least walk us through what they are seeing in China, Europe, and North America. Walking us through the same types of things that they would in a live conference event would be helpful right now because there is so much uncertainty. One-on-one conference calls or even with a larger group using a Q&A format is helpful. A good format would be if you have the sell side asking questions and then open it up

more broadly for Q&A at the end. Therefore, you can do one-on-one, but you can hit a broader audience as well if you do a larger conference-type format.” *Analyst, Boutique US sell-side firm*

- “IR teams should be providing updates on the situation. IR should have extremely well-thought-out strategies for communications. **IR teams should be looking at the numbers every day and anticipating questions.** I understand the information is limited, but any way to help in terms of where there might be exposures would be super helpful.” *Analyst, US investment manager (>\$50B EAUM)*