



IHS Markit®

# Investor Relations is a Competitive Advantage



# Investor Relations

Investor Relations can be a competitive advantage for a public company similar to great products, talent, science, assets or operations. This new IHS Markit analysis focuses on best-in-class IR programs, identifying what makes these teams stand above the rest and quantifying their success. By creating a lower cost of capital and a competitive business advantage, companies are better positioned to maximize valuation. The key findings of the study are:

- **Highly effective IR maximizes valuation by supporting a premium of 15% and lowering volatility by 5%**, as measured by beta. (Conversely, ineffective IR leads to a discounted valuation of 10% or more<sup>1</sup>.)
- **Valuation has a direct impact on the company's access to (and cost of) capital**, which contributes significantly to sustainable business growth, particularly versus lesser competitors.
- **These 2 factors taken together provide companies with a significant competitive advantage over time**, enabling the firms to invest in business growth for the future.

Companies with highly ranked investor relations programs benefit from an optimal valuation and reduced cost of capital. This eBook is for any management team wishing to build or enhance its IR function and benefit from these competitive advantages.

Competitive Advantage :

“A condition or circumstance that puts a company in a favorable or superior business position.”

<sup>1</sup> Based on recent surveys by IR Magazine & Iridium Advisors, both detailed in this report.



# The Power of a Valuation Premium

The first thing that any Investor Relations Officer (IRO) will tell you is that they do not want to be judged based solely on stock price. All the experts surveyed in this study shared this conviction in one way or another. At the same time, a company's valuation is an often-used barometer for IR effectiveness.

Companies issue shares to raise capital (money). This capital is then invested in expansion, marketing, M&A and other activities, with the objective of building upon the firm's competitive advantage. The shares of the best companies in the world trade at a premium to their competitors, and they can capitalize on their lofty valuation by taking advantage of less costly capital versus other companies. If these investments pay off, the stock price goes higher, more opportunities present themselves and the company continues to benefit from the premium. So, it becomes a virtuous cycle.

Before getting into the analysis of the impact of IR, it is instructive to explore the ways that valuation premiums have enabled two successful companies, Salesforce and Disney, to increase their competitive advantage over time.

- Salesforce's acquisition of Tableau was a \$15.7B all-stock transaction. The company was already the global leader in CRM, and the addition of Tableau rounded out its Salesforce Customer 360 offering by enabling customers to bring data to life by visualizing it.
- Disney's acquisition of Pixar, a \$7.4B all-stock deal, raised eyebrows at the time. However, it is now considered the deal that re-invigorated Disney's animation division, leading to a string of hits, which have enabled the company to dominate the category ever since.

Both Salesforce and Disney have consistently traded at premium multiples versus peers and the overall market over a period of years. In both transformational deals listed above, this strong valuation provided the currency required to make acquisitions of leaders in their industries, ultimately driving the values of each of their businesses significantly higher over time and building upon their competitive advantages in the marketplace.



# How investor relations impacts valuation

The benefits of a higher valuation are clear in the case of Salesforce, Disney and countless others. Therefore, IHS Markit performed an analysis to determine what the impact of IR is on stock price and resulting valuation. The following results were discovered using IR Magazine's IR award winners:

- **Higher Valuation** - Award-Winning IR programs<sup>2</sup> trade at an average 15% premium valuation to their peers.
- **Lower Volatility** - Award-winners on average experience a 5.2% reduction in beta-implied volatility versus peer groups.

At IHS Markit, the Perception Analytics team conducts perception studies for companies around the world. As part of these studies, the team asks a number of questions about the strength of the IR teams within each. For this analysis, the team looked at the best and worst performing IR teams (as rated by investors and analysts) in these studies. The top 10 and bottom 10 were selected from a sample of approximately 300 companies over the past 3 years. The results are telling:

- The highest-rated companies traded at an average 8% premium and experienced less volatility, with 8% lower beta versus their peers.
- Lowest-rated companies trade at a discount of 16% and had increased volatility of 12%.

So, companies with the best IR teams trade at premium prices and experience reduced volatility. The opposite was true for companies with the lowest-ranked IR teams.

Additionally, a recent case study by IR Magazine ("The Value of IR"), using surveys, points to the valuation premium for strong programs:

"Nearly 9 times out of 10, members of the investment community will assign a premium to the share price of companies with a well-run IR program..."

"...substandard IR can be responsible for an even larger discount: 25% of respondents would apply a discount of more than 15 percent."

"In Asia, where the more nascent IR scene means an overall lower level of investor relations, 10 percent would gratify good investor relations with a premium of 20 percent or more. The Asian investment community places more importance on, and assigns a far higher premium to, good investor relations than counterparts in the rest of the world."

<sup>2</sup> IHS Markit's analysis compared 30+ overall IR Award winners from 2018 and 2019 (as designated by IR Magazine) to 100+ peers spanning multiple sectors across North America, EMEA and APAC.

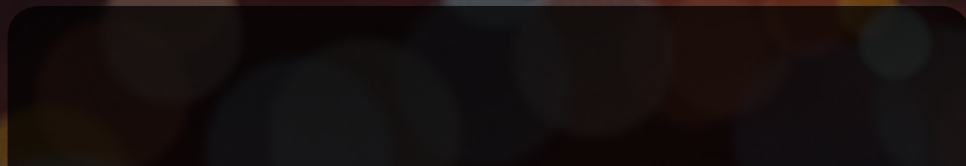
How much of a premium would you be willing to  
pay a company with more credible IR practices?

(Source: IR Magazine "The Value of IR", March 2018)



# Expert opinions from best-in-class investor relations

To support the findings from the previous two studies, IHS Markit spoke to a number of experts in the field today on the value of IR and impact on valuation. According to the experts, effective IR clearly leads to a valuation premium and competitive advantage over time.



# Effective IR = Premium Valuation & Reduced Volatility

Managing Director, Global Investor Relations & Chief Communications Officer  
Practice Group, ZRG Partners, LLC

CEO at Iridium Investor Relations

Head of IR at Deutsche Borse Group

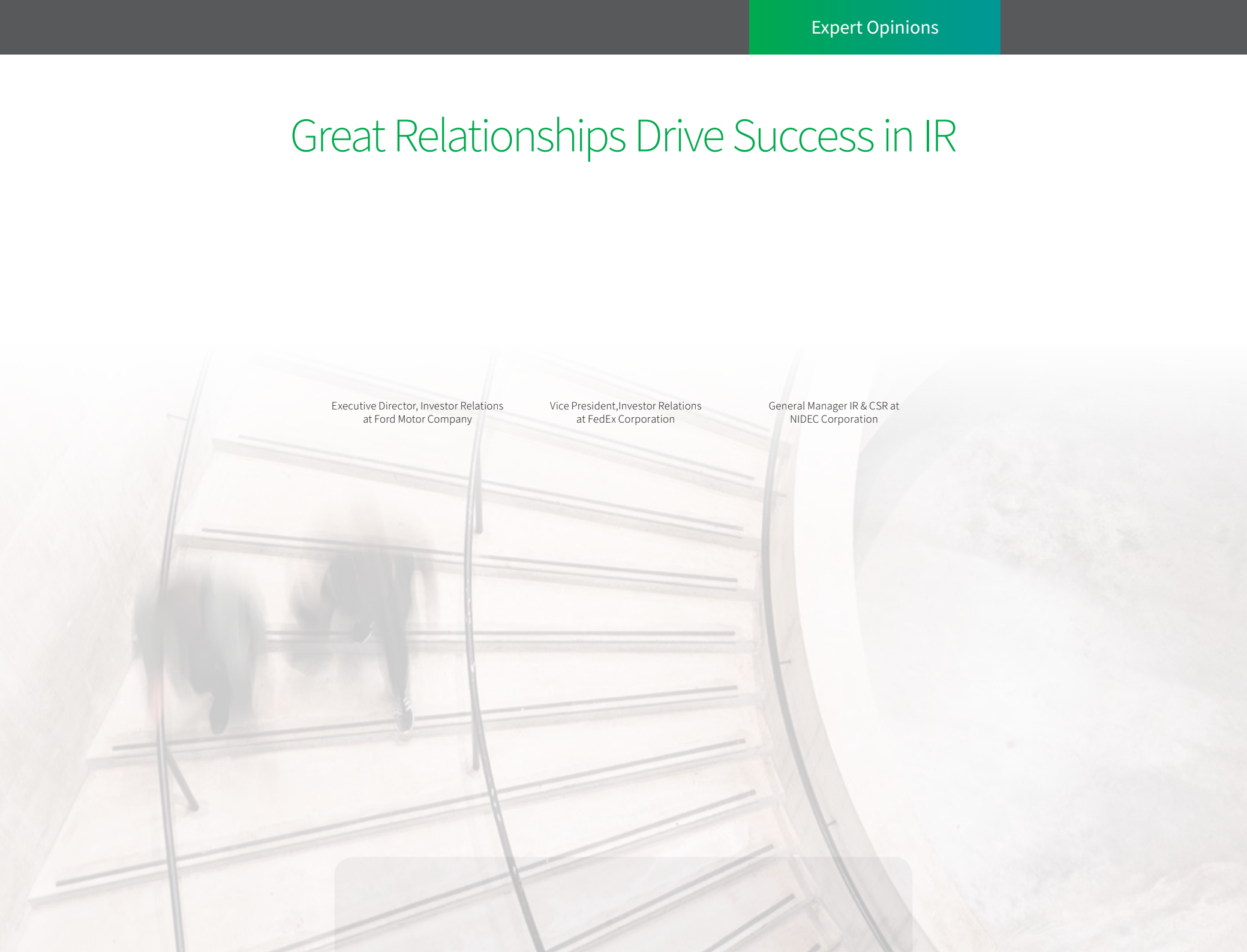
Head of Investor Relations, 8x8  
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Deputy Head of  
Investor Relations, Aeroflot

General Manager, IR Group,  
Santen Pharmaceuticals



# Great Relationships Drive Success in IR



Executive Director, Investor Relations  
at Ford Motor Company

Vice President, Investor Relations  
at FedEx Corporation

General Manager IR & CSR at  
NIDEC Corporation



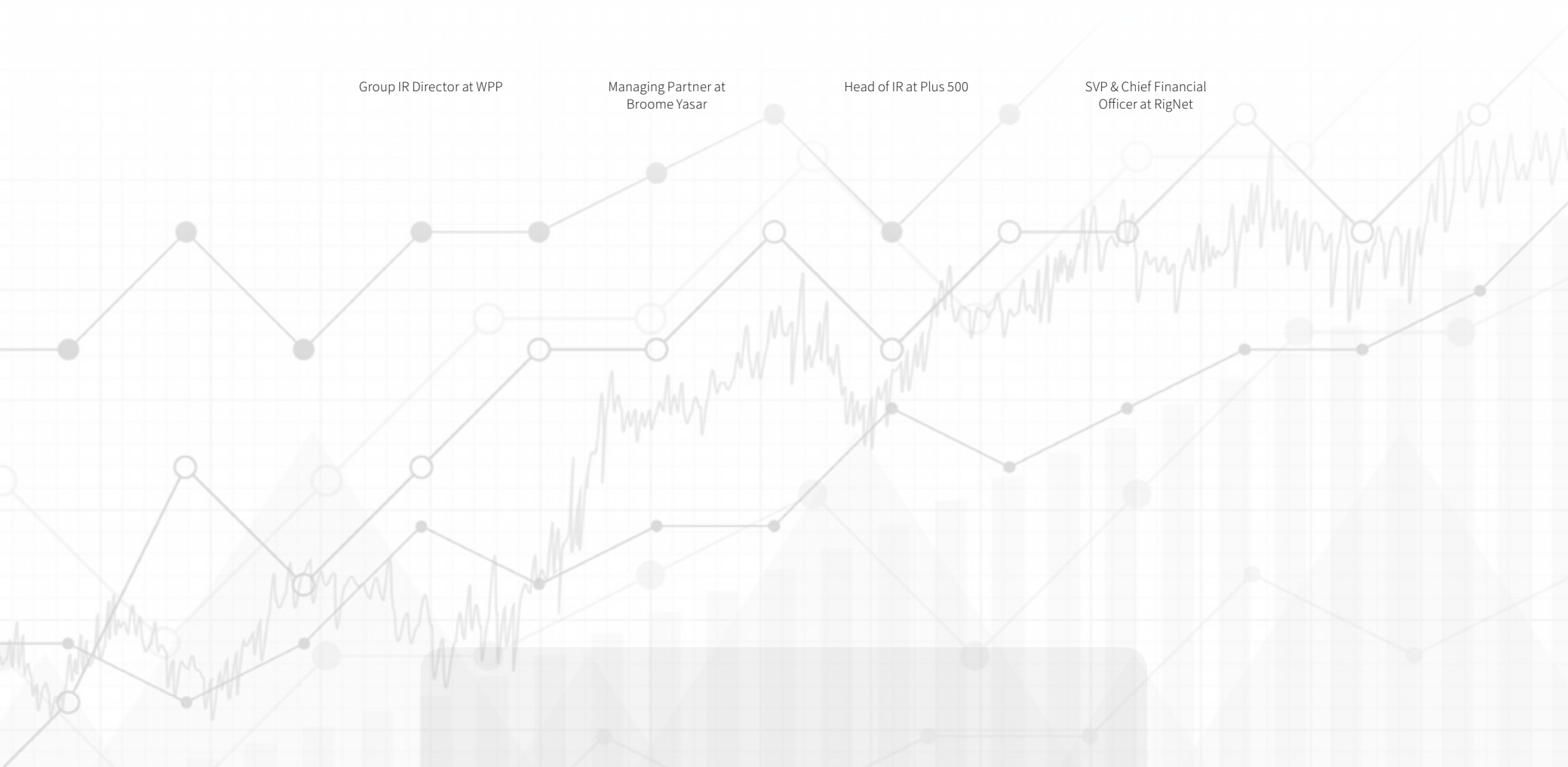
# Enhancing ROI as a Proxy for Management

Group IR Director at WPP

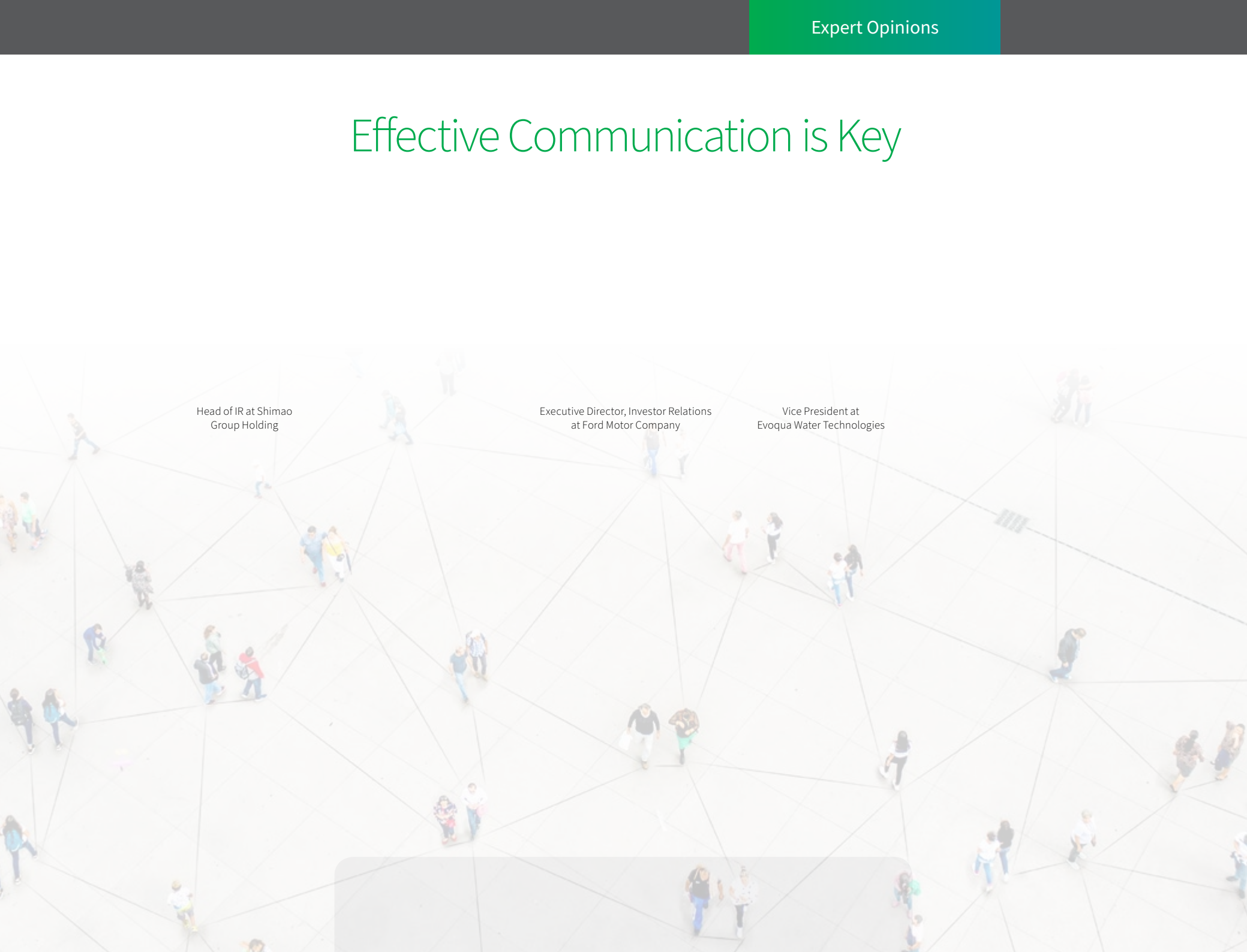
Managing Partner at  
Broome Yasar

Head of IR at Plus 500

SVP & Chief Financial  
Officer at RigNet



# Effective Communication is Key



Head of IR at Shimao  
Group Holding

Executive Director, Investor Relations  
at Ford Motor Company

Vice President at  
Evoqua Water Technologies

# Measuring IR is Critical to Success

SVP, Treasurer & Investor Relations at Pentair





## Key Takeaways

Circling back to the definition of a competitive advantage: A condition or circumstance that puts a company in a favorable or superior business position. Based on this definition, how a stock price can impact a company's financing position and the content in the rest of this article, IHS Markit believes:



Equity valuation and the financing options it can afford can be viewed as a competitive advantage for growing companies.



The best Investor Relations programs in the world have proven to have a meaningful impact on valuation.



Investor Relations is indeed a competitive advantage and should be treated accordingly by management and the board, with the same investment and vigor as a company's other competitive advantages.



## IR industry leaders interviewed for this analysis

This report is a combination of our data analysis along with interviews with over 20 of the top IR practitioners around the globe – a mix of highly ranked IROs and leading advisors from North America, EMEA and APAC. While each of these experts has their own unique experience in IR, there were many common themes which emerged. Many of the experts are named below, and several chose to remain anonymous. Any direct quotes are attributed to the individuals. The general themes and takeaways were derived by taking all the feedback into consideration and arriving at a consensus opinion. That said, there are always differences of opinion, so the ultimate conclusions and opinions should be considered IHS Markit's unless otherwise noted. We are grateful to our expert contributors. It was a distinguished list of professionals and they provided invaluable insights on the topics at hand. These are the individuals with whom we spoke:



**Lee Ahlstrom,**  
SVP & Chief Financial  
Officer at RigNet



**Dan Brailer,**  
Vice President at  
Evoqua Water Technologies



**Rob Gurner,**  
Head of IR at Plus 500



**Nikolay Domrachev,**  
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**Andy Li,**  
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Group Holding

IRO at Hong-Kong listed AAC Technologies  
Award-winning IRO of German financial services company  
Award-winning IRO of US consumer goods company  
Veteran IRO of US financial services company  
Award-winning Swiss IRO

## Authors' Biographies



**Jason Oury** leads IHS Markit's Global Issuer Solutions Advisory business, overseeing over \$50M in revenue with a team of over 200 employees and analysts operating in multiple, international locations. This division has become the largest, organically grown investor relations service provider in the history of the industry. Jason's organization services over 1,000 corporate clients, helping them help them turn investor relations into a competitive advantage by providing effective workflow solutions and critical market intelligence. Before being acquired by IHS Markit in 2018, Jason joined Ipreo in November 2006 as a Director in the Global Markets Intelligence group, serving a diverse mix of clients in several sectors, where he acted as a trusted adviser to senior management and investor relations departments. Before joining Ipreo, Jason was an Associate Director on Thomson Reuters' market surveillance team, providing crucial ownership and investor intelligence to investor relations departments in both the Biotech and Energy sectors. Jason graduated from Fordham University's Master's program in International Political Economy, and earned a BS in Finance from the University of Rhode Island.

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**Michael Miller** is an IR veteran with over 20 years of experience in the financial services industry. He is focused on providing innovative solutions and actionable intel to clients through IHS Markit's unique product and service offerings. Additionally, he is responsible for global thought leadership initiatives. Prior to joining IHS Markit, Michael spent five years abroad as Head of Investor, Media & Public Relations at National Bank of Abu Dhabi. Before that, he held leadership roles at leading global institutions including BNY Mellon, Dun & Bradstreet, Arthur Andersen and T. Rowe Price. Michael earned his bachelor's degree in Accounting at University of Delaware and an MBA in Finance at University of Maryland. He is a CFA charterholder.

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**Andrew Schultz** is a member of the Research & Analysis group at IHS Markit, working in Corporate Investor Relations Advisory. Currently, Andrew counsels Investors Relations and Management teams on industry, sector and markets trends, facilitating informed decision-making and strategic solutions. Andrew serves as a member of IHS Markit's Corporate Activism Committee, as well as a Consumer sector expert. Andrew graduated from the University of North Carolina at Chapel Hill with a BA in Economics and a credential in Quantitative Financial Economics.

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## About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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