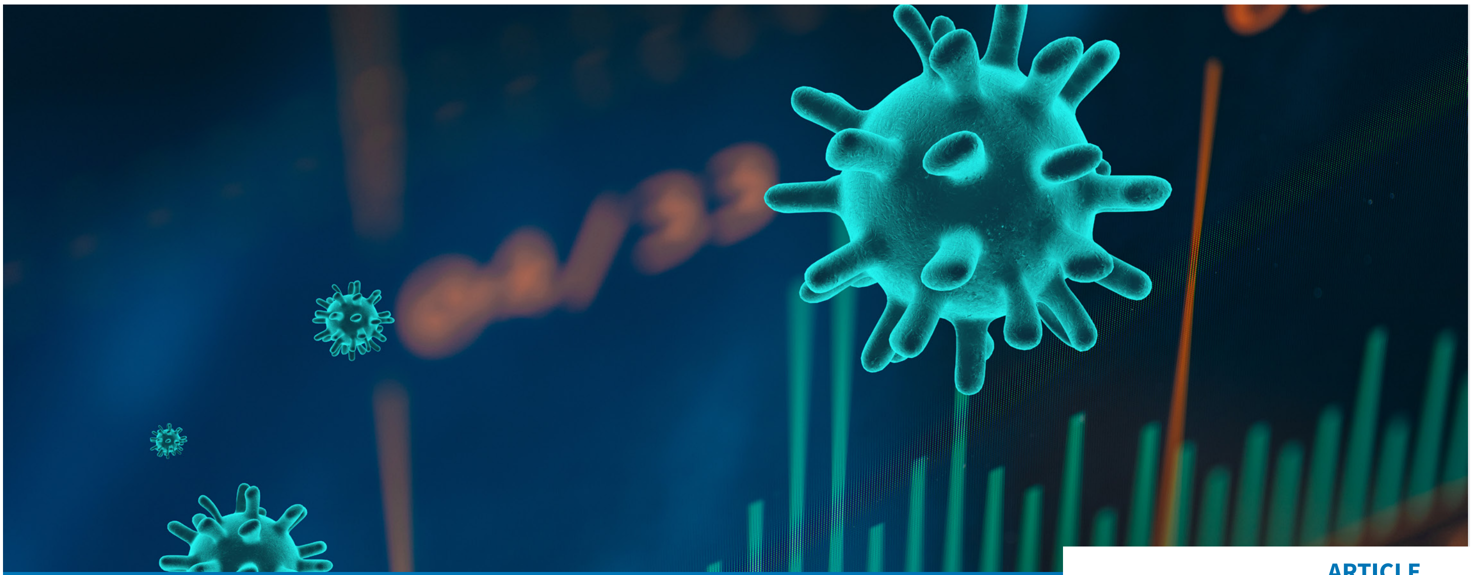

ARTICLE

Evolving Investor Communications in a COVID-19 Environment

While much has changed since the onset of the COVID-19 crisis when we provided our perspectives on guiding the Street during the pandemic,[1] we still find ourselves with a high degree of uncertainty as to how the rest of the year will unfold.

As we enter the second quarter earnings season, your responsibilities from a capital markets perspective remain to recognize and articulate the challenges at hand; detail your company's plans to confront them; help your key stakeholders make informed investment decisions, and tailor a thoughtful value proposition in a rapidly changing environment.

These foundational elements set the groundwork for an effective Investor Relations (IR) strategy. However, we find ourselves in a particularly interesting time as the market remains dislocated, yet unlike the first quarter, we anticipate seeing a wider variance in sector and company specific performance. Reporting strong results could lead to overly optimistic views of the rest of the year and future periods. On the other hand, if you report weak results, you may be cast aside as a broken stock. In either case, it is critical to strike the right balance between transparency and credibility.

Below, we have outlined some key recommendations to consider in this earnings cycle.

Transparency to Maximize Credibility

Rethink the Company's Guidance Framework – Recognizing the COVID-19 pandemic is here to stay, at least for some time, we expect there will be a higher degree of scrutiny from investors regarding management teams' guidance practices compared to three or four months ago. While early in the crisis, the prudent and sound decision for many companies was to suspend full-year guidance, the investment community now expects at least some qualitative discussion or directional guidance for the third quarter or the second half of the year, in addition to a detailed discussion on quarter-to-date trends.

While the degree to which companies have visibility into future performance plays an important role in determining the suitability of providing guidance, there are a number of ways companies can pivot from traditional guidance policies to exhibit transparency and maintain a credible dialogue with the investment community.

Based on research conducted by FTI in June 2020,[2] providing financial assumptions regarding metrics under the company's control is the preferred disclosure by investors when companies are unable to resume formal guidance. In line with FTI's recommendation[1] earlier this year, investors also view favorably companies that provide additional details as to how the business might perform under different scenarios. On the contrary, investors consider wider than usual target ranges as the least helpful method when resuming any sort of financial guidance. If you do decide to provide a wider guidance range than usual, our recommendation is to tie the high-end, midpoint and low-end of the range to bull/base/bear case scenarios to help investors better understand any underlying assumptions.

Avoid Being Overly Optimistic – As there are still a lot of unknowns regarding how the back half of the year will unfold, companies should temper their optimism with regards to expectations related to business recovery in future periods. Discussions around encouraging news should be nuanced with some level of cautiousness for the rest of the year to avoid sell-side analysts extrapolating any positive trends in the absence of formal guidance. Similarly, discussions around future growth prospects should be supported by facts, third party data or relevant customer insights to ensure credibility and investor confidence.

Strike the Right Balance Between Short-term and Long-term Trends – Companies should strive to provide a balance of information between short-term trends impacted by COVID-19 and longer-term dynamics reflective of the fundamentals of the business. While the investment community expects an update on the COVID-19 impact, it should not cannibalize the entire discussion. Long-term oriented fundamental investors are not paying as much attention to companies' ability to resume guidance in the near-term, but they do take interest in how companies are (re)positioning their business to capitalize on structural changes in the industry or business as well as longer-term growth opportunities emerging from the crisis. On the contrary, avoiding a discussion on the short-term disruption associated with the pandemic could make management teams look tone deaf to what is happening in the marketplace.

Proactive Engagement to Maximize Support

The COVID-19 pandemic has shifted corporate access online and IR activities will likely remain virtual through the end of 2020, if not longer. In this context and based on FTI research conducted in June,[2] almost half of surveyed investors have engaged with companies more frequently since the beginning of the pandemic. As investors are expected to continue to leverage virtual channels to engage with an increasing number of companies, we have outlined below a number of ways to maximize this opportunity.

Virtual Conferences and Non-Deal Roadshows – These virtual events present a number of advantages, including better availability of the C-suite, time and cost savings due to the absence of travel, more targeted and efficient engagements when there is an existing relationship between management and investors, and the ability to target a larger number of high quality investors regardless of geography. As we see these events grow in popularity, with almost half of IROs intending to participate in more virtual roadshows this year than before the COVID-19 outbreak,[3] it is beneficial for companies to develop a thoughtful targeting strategy to ensure these virtual meetings are as productive as possible.

Virtual Company-hosted Investor Events – FTI's research shows that there is a strong appetite for virtual investor days or teach-in sessions hosted by companies. 78% of investors surveyed in June believe companies should be engaging more directly with existing and potential shareholders outside of sell-side sponsored events, with a large majority favoring virtual investor days.[2] To meet this demand, almost a third of companies globally plan on holding a virtual investor day over the course of 2020.[3] These events present a unique opportunity to do a deep dive into some important aspects of the business or to provide strategic updates complementing what has already been discussed during quarterly earnings calls. Companies can also leverage these virtual sessions to educate investors on some misunderstood dynamics of the business or industry.

Virtual Environmental, Social and Governance (ESG) Fireside Chats – To align with investors' increased interest in companies' ESG practices, more sell-side research analysts have recently formally incorporated ESG considerations into their analysis of companies. In light of the increased appetite for and scrutiny of ESG strategies and information, holding a virtual ESG fireside chat is a great opportunity for companies to highlight their sustainability initiatives and differentiated positioning.

Closing Thoughts

While the pandemic continues to serve as an overhang on the overall market, we expect wider variance in sector and company specific performance to shift the mindset of investors to picking ‘winners’ and ‘losers’ coming out of the second quarter earnings season. These predictions may ultimately be proven premature and inaccurate, which raises the stakes for companies caught in the crosshairs.

To ensure optimal positioning and investor communications in this unprecedented environment, companies must effectively balance increased transparency while protecting their credibility. They can do that by rethinking their guidance framework, avoiding being overly optimistic and striking the right balance between disclosing short- and long-term trends impacting the business.

Now more than ever, we also see investors taking advantage of the virtual environment to engage with an increasing number of companies. As such, it is critical to proactively engage with investors and position your company to successfully compete for investor ‘mind-share’ and capital.

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[1] Guiding the Street During the COVID-19 Pandemic, FTI Consulting, (March 25, 2020), https://fticommunications.com/covid-19/guiding-the-street-during-the-covid-19-pandemic/.

[2] FTI Consulting Strategic Communications surveyed 109 institutional investors worldwide, representing $2.8 trillion in equity assets under management in aggregate. The data was collected between June 18 – 22, 2020.

[3] COVID-19 and IR: How investor relations is affected by the COVID-19 pandemic and the social measures to combat it, IR magazine, (June 17, 2020), https://content.irmagazine.com/story/covid-19-research-report/.

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Appendix

FTI Consulting Strategic Communications surveyed 109 institutional investors worldwide, representing $2.8 trillion in equity assets under management in aggregate. The data was collected between June 18 – 22, 2020. Key highlights discussed in this article reference investors' answers to the following questions:

Considering the lack of visibility due to the COVID-19 pandemic, what information would you prefer companies to share about their outlook if they are unable to resume their formal guidance framework? Please insert your ranking (1 through 5) in the order of your preference.

	1	2	3	4	5	Mean
Financial assumptions regarding metrics under the company's control	39%	21%	23%	15%	3%	2.2
Financial targets under various scenarios	28%	35%	17%	14%	6%	2.3
Directional guidance	20%	28%	25%	19%	8%	2.7
Quarterly guidance instead of annual guidance	8%	6%	17%	26%	43%	3.9
A wider target range than usual	5%	10%	18%	27%	40%	3.9

Given the current environment, do you believe companies should be engaging more directly with existing and potential shareholders outside of sell-side sponsored virtual events? Please select one.

	%
Yes	78%
No	22%
Total	**100%**

Outside of sell-side events, how do you prefer companies should engage with you directly? Please select top two for each.

	Current Investments	Potential Investments
Virtual investor days (public)	50%	51%
1-on-1 video meeting (private)	43%	43%
1-on-1 phone meeting (private)	41%	37%
Group investor video or phone call (private)	33%	40%
Intra-quarter business update calls (public)	33%	28%