The Evolution of IR: Adapting to a Disruptive Investment Climate

Introduction

The world of investor relations has markedly changed over the last 20 years. The influence of the sell-side continues to weaken. Passive investments have risen to record levels. Activist motivations have changed—no longer are they only looking for underperforming companies or short-term investments, instead they are identifying well performing businesses in which they believe strategic alternatives could unlock additional value. And wealthy millennials with a conscience are single-handedly driving the integration of ESG into the portfolios where they park their money. Corporate investor relations teams using the same playbook from past years are finding themselves woefully outmatched as they scramble to rebuild an investment narrative that resonates in this new world.

All of this is happening as growth is moderating for companies and an active M&A environment has driven valuations sky high while an uncertain-at-best economic backdrop looms in the future. Investors are becoming increasingly wary of "transformative" acquisitions and opting for companies with more conservative returns.

As companies look to evolve or shift their growth strategies based on these current market conditions, the investor narrative must be sharp, focusing on the areas that will best position the business for the future, such as M&A, ESG, and the agility to quickly respond to changing circumstances or manage through downcycles as needed. In addition to enhancing the investment thesis, organizations also need proven strategies for validating their stories and gauging investor perception as well as sharing evolving stories in smart, efficient ways.

The following are keys to designing a strategic IR program that will invite more active investment into the stock and maximize equity valuation.

Evolving Your Investment Thesis

Given the dynamic market conditions, it's likely that your investment thesis is evolving or even in some cases pivoting. Even if your growth strategy is largely unchanged, your narrative may need to be enhanced to put emphasis on the aspects that will best resonate with the current investor mindset. Remember, a sound investment thesis must always be grounded in both opportunity and risk.

As you look to find the right balance that will appeal to your investors' threshold for risk versus their quest for reward, keep these best practices in mind:

Be bold about growth.

Even if many investors are adopting a more cautionary mindset, opportunity will always be the primary driver for investment decisions. Resist temptation to tone down the growth story. Instead, put the focus on how the market supports the strategy and why the opportunity is ripe right now. A solid value creation story will ultimately be what motivates investors. In short, keep it realistic, but make it as strong as possible.

Be transparent about risk.

Investors need to know that the bold new strategy contemplates, and controls, risks. This part of the story may need additional emphasis right now given the uncertainty in the market. Being clear about the stability of your stock and the inherent safety in your business model – throughout a cycle – is key. Highlight your organization's agility and how you are positioned to quickly make changes if needed.

Use ESG to bolster both your growth and risk mitigation stories.

The integration of Environmental, Social, and Governance (ESG) factors continues to gain tremendous traction. Today, one out of every three dollars invested has an ESG angle. ETFs are getting into the game, with the S&P Dow Jones Indices (S&P DJI) recently announcing the debut of its inaugural ESG index that includes only 329 of the indices' traditional 500. Those omitted don't meet the relevant ESG screens.

Clearly, building ESG into an investment thesis is no longer optional. Indeed, neglecting to do so can alienate current investors, keep you off the radar of future investors (particularly millennials who show some of the strongest interest in these areas), and even open the door to activism.

Fortunately, organizations have opportunities to leverage ESG policies to reinforce both growth and safety messaging. From a growth perspective, companies that are strong in ESG areas, such as diversity and workforce policies, will be better equipped to capitalize on opportunities today and in the future. Strong ESG practices also contribute to the sustainability of an organization's business model, thus making it a safer long-term bet for investors.

Address investors' concerns around the current M&A climate.

With organic growth slowing for many U.S. organizations, M&A activity has escalated. If an acquisition is in your future, your organization is likely feeling the pressure from investors who want to see you maintain growth rates but who are leery of incredibly high valuations at the same time. This is especially true if your business must take on debt to pursue M&A.

Succinctly articulating the strategic imperative for the acquisition, path to shareholder value creation, the eventual outcome, and how the transaction fits into your broader capital allocation strategy is essential.

Establish a roadmap.

A solid investment thesis should be based on a specific timeframe. Investors will want details on the timing of your value creation plan. Building those details into the narrative at the outset helps keep the organization on pace while setting the stage for ongoing investor engagement. The thesis should be clear about the ultimate objectives of the strategy and include key milestones along the path from where you are now to your vision. If the growth plan will happen in tranches or over time, be as specific as possible about what investors can expect to happen when. Discuss how you will measure success and share with investors the KPIs you will be tracking along the way, as well as your projections for these metrics, if possible.

Validating Your Narrative through Perception Work

As you're building your investment thesis around your company's vision for growth, it's imperative to understand specifically how investors view the opportunity that lies ahead, as well as the plan for getting there. This is especially true if the thesis is shifting or changing considerably. But it's critical even if the growth strategy is staying relatively consistent: You need to know if investors are on board (or not) with your decision to stay the course.

When planning your perception study, be sure to:

Include the tough questions.

In most cases when you talk to your investors, they are doing most of the asking while you are doing most of the sharing. Perception work flips the script and gives your investors opportunities to open up about their thoughts and ideas. Strategically crafting the study to include some pointed questions will drive the most valuable insights and help you understand any perception gaps or hurdles to their investments.

Every company wants to learn that their investors are 100% aligned with their thinking. But what you really need to find out is where that's not the case and why. This insight can help you determine the necessary steps you need to take to provide additional education and strengthen your narrative where needed.

Look for diverse perspectives.

A perception study should include a good mix of investors who are overweighted, underweighted, those who have sold, and those who remain on the sidelines. This ensures a comprehensive understanding of how your thesis is going to sit with your current base. It can also show you if any forthcoming changes in strategy will swing the current mix one way or another.

Embrace the opportunity to start the ESG conversation.

If ESG is new territory for your organization or if you're still not 100% convinced that your investors care about these topics, there's no time like the present to use a perception study to find out for sure. Build ESG-related questions into the study to learn directly from your investors which topics hold the most weight and what they would like to see your organization do more of in these areas. Perception work also gives you a golden opportunity to learn what's driving investors' ESG-related concerns and to gain insight into what they view as the real value of a sound ESG strategy.

Be ready to take action.

Keep an open mind when hearing the results of the perception work and be willing to take investors' concerns seriously. If there is pushback to the company's strategic thinking, it doesn't mean you automatically need to change course. But it may necessitate a rethink of how to better communicate the story, including adding new rationale to better build investor confidence.

Sharing Your Story with an Investor Day

Once your investment thesis is fleshed out and you've thoroughly kicked the tires through perception work, finetuning the story where needed, it's time to share that thesis with the investment community. Investor Days can be a key part of your communications strategy, especially if the growth strategy is shifting or there are new layers of the investment story you need to tell.

Ultimately, an Investor Day provides one of the most effective and efficient ways to communicate an evolving story. However, considerable time and resources go into planning the event, so, it's important to get the greatest return possible.

To maximize the payoff, you should be prepared to:

Focus on perception study results.

Use what you learn from your perception study to shape the agenda for the day. An Investor Day is an opportunity to speak to a large portion of your investor base when they are a captive audience. Concentrate on their greatest areas of concern or topics where they need additional education around your strategic growth vision. Remember that delivering the information your investor base wants and needs to hear is the key to making the day as impactful as possible.

Build an agenda and a roster of speakers that best addresses the transformed investor narrative.

Logging facetime with every member of management is one of the biggest draws of an Investor Day. Investors who take the time away from their schedule to come to your event expect to be rewarded by having your team fully engaged. At the same time, spending valuable presentation time on areas of topics investors aren't worried about or don't value can hijack an otherwise valuable day. Make sure you create the agenda around key topics and build internal (and external) speakers around the most valuable topics. And, don't miss the opportunity to showcase the depth of your team and their heightened knowledge of key end markets, industries or regions that provide the most growth potential for the company.

Repackage and repurpose the content to maximize ROI.

New content and messaging narratives delivered at the investor day should live on long after the event is over. Capturing video and presentations can extend the usefulness of the work that goes into the day. This content can be reused in materials such as the investor deck, fact book, and website later on to educate additional stakeholders, reinforce key messages, and keep the conversation going with potential investors and/or sell-side analysts.

The Rise of the "E" and "S" in ESG Investing

ESG is more than a fad. Results from our 2019 ESG survey indicate that ESG is becoming more mainstream. Respondents from diverse industry groups and investment styles are reporting an increased prevalence on ESG factors when it comes to investment decision making. Unsure what this means for your organization? Clermont Partners is here to help.

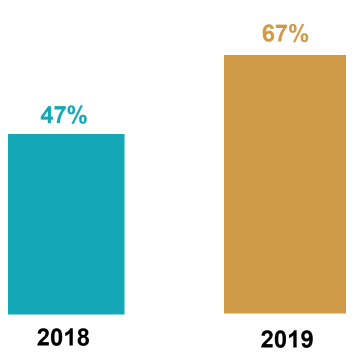
Highlights from the Study

- The **investment styles** of the nearly 200 investors that completed the survey were 47% GARP, 37% growth, 41% value and 6% deep value*
- More than two-thirds of respondents focus on ESG factors when making an **investment decision**
- 13% of respondents manage a fund that is considered **ESG-dedicated**
- **Client demand** and **changing client preferences** are primary drivers of the increased importance of ESG factors
- 47% of respondents said they use **Corporate Sustainability Reports** in their ESG analysis, while 43% of respondents obtain ESG information from **Annual Reports***
- Investors want to see ESG data updated more often and will often ask ESG-related questions in **one-on-one meetings**
- **Corporate governance** is the top ESG factor respondents consider when making an investment
- 40% of respondents said they use **MSCI ratings**, more than ISS (32%) and Sustainalytics (23%)*
- SASB and ESG frameworks are **not universally followed or adopted –** 95% of respondents said they do not follow SASB (Sustainability Accounting Standards Board) and 35% follow no formal sustainability frameworks

More Than Two-Thirds of Respondents Focus on ESG Factors

67% of respondents consider ESG factors when making an investment decision, up from 47% a year ago.

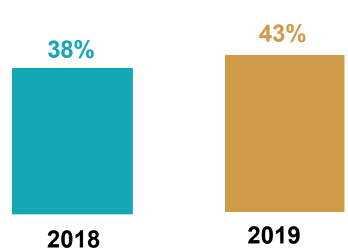
Are ESG factors considered when making an investment decision?



ESG is Increasingly Growing in Market Emphasis

43% of respondents say ESG factors are becoming more prevalent in the market, up from 38% a year ago.

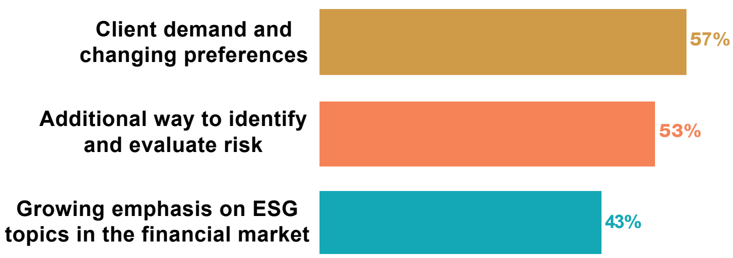
In the past two years, to what degree has the importance of any of the topics related to ESG changed in terms of your firm's decision-making process?



***Reflects highest ranked factor**

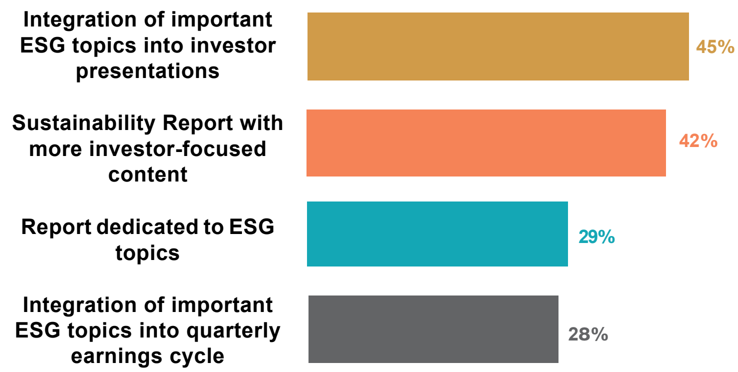
Client Demand Remains a Primary Driver of Increased Importance of ESG Factors

What is the key driver for the increased importance of ESG factors in terms of your firm's investment strategy?*



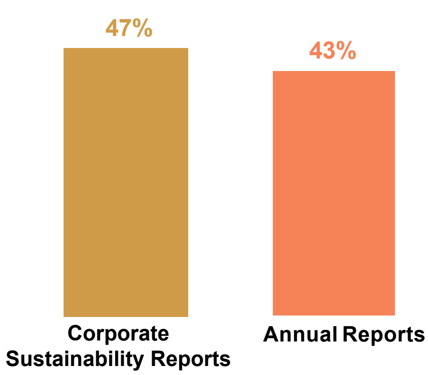
Investors are Most Interested in Seeing ESG Communications Integrated into Investor Presentations

What investor communications could be improved with the addition of ESG topics?*



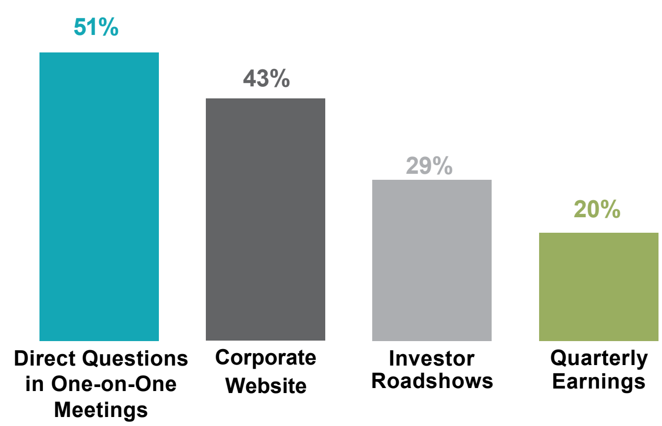
Investors are Almost as Likely to get ESG Information from Annual Reports as Sustainability Reports

How do you get the most helpful information from an issuer on your ESG screening?*



Investors are Increasingly Looking for More Timely Updates / ESG Information

How do you get the most helpful information from an issuer on your ESG screening?*



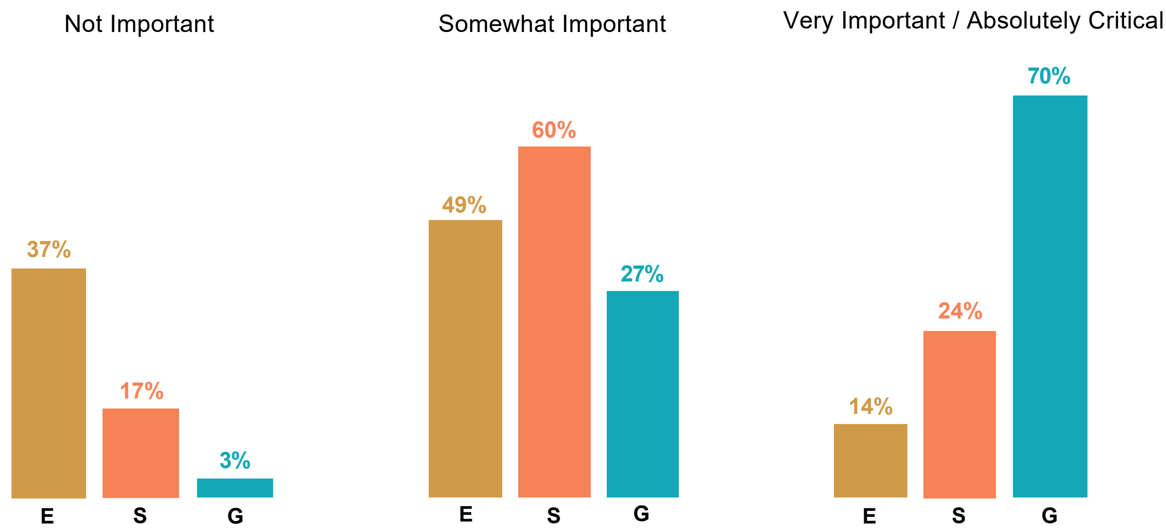
Investors find the most helpful sources of ESG information to be direct questions in one-on-one meetings, followed by corporate sustainability reports and corporate websites.

*Reflects highest ranked factor

The E, the S and the G

Investors are Split on the Importance of the "E" Factors

How important are E, S and G factors in making an investment?



Corporate Governance Remains the Top ESG Concerns

Do any of the following factors influence your investment decision making process?*

Governance Leadership, executive pay, shareholder rights and internal controls	**84%**
Social Relationship with community, working conditions, employee health and safety and valuing volunteerism	**49%**
Environmental Carbon footprint, energy consumption, waste, pollution, natural resource consumption, treatment of animals	**40%**

Other Risk-Based Factors are Concerns to Investors

The top ESG factor respondents consider when making an investment is corporate governance followed by cybersecurity, executive compensation and supply chain risk.

***Reflects highest ranked factor**

Clermont Partners empowers companies to make the most of strategic communication opportunities that impact equity valuation. By blending our decades of capital markets experience and relentless focus on research, we help clients cut through the noise and better navigate change that impacts stakeholder narratives and investor engagement.

Clermont Partners
161 N Clark Street, Suite 2950
Chicago, IL 60601
312.690.6004
www.clermontpartners.com