Impact Communication:
The Investor Relations Way

How active communication helps IROs cultivate positive sentiment

Research Reinvented

Impact Communication: The Investor Relations Way was written by Anisha Kundu and Shaun Lin, edited by Michael Tegos, and designed by Jo Foster

WELCOME TO

Impact Communication: The Investor Relations Way

How active communication helps IROs cultivate positive sentiment

As the gyres of the global financial markets turn, swift and accurate communication is the grease that keeps them going.

The statement above needs little explanation to those who trade, invest, and research these markets. It might be so obvious that sometimes it's taken for granted but its weight should never be lost on investor relations professionals.

Timely and comprehensive disclosures are the bedrock of accurate analysis. They are key to determining a company's true worth as an investment.

What IR officers say on behalf of their listed firms, and how they say it, can have a material impact on overall share performance.

This ebook offers some useful tips on how to get maximum mileage out of your IR communications strategy.

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Your ESG Policy Doesn't Do Much Good If You Don't Tell People About It

Not all corporate exposés revolve around damaging scandals

In the early 00s, L'Oréal started to care.

The company made a conscious decision to work on its governance and rolled out a code of ethics.

An organisation-wide strategy to be environmentally and socially responsible soon followed. It was underpinned by a mission to lead by example within the beauty industry, in which it operates.

Not only did L'Oréal decide to walk down this path, it made every effort to communicate its intentions to the world. The new outlook was summed up in this bold statement: "By 2020, L'Oréal is committed to improving the environmental or social profile of 100 percent of its new or renovated products."

Oh, what zeal!

Thanks to this strategic pivot, L'Oreal today draws interest from a growing base of "conscious" consumers: Those who look for brands embracing values that matter to them, like climate change, gender equality, and animal testing.

This renewed approach to doing business has translated into increased revenues, better financial returns, and stronger investor interest for L'Oreal.

And so, it stands to reason that what is good for society and for the environment is also good for L'Oréal's business.

What Is ESG?

The story of L'Oréal's greater-good movement speaks to how ESG principles are transforming the way global companies operate.

ESG stands for Environmental, Social, and Governance.

According to the FT Lexicon, it is a term used by investors to evaluate corporate behaviour. They try to determine the future financial performance of companies based on a subset of non-financial performance indicators, which include sustainable, ethical, and corporate governance issues.

Looking at ESG in a different way, such disclosure helps corporations ensure greater accountability to investors.

Why Should Corporates Even Bother?

Investors are becoming increasingly cognisant about ESG issues. Now, more than ever, they take these factors into consideration when making investment decisions.

PIMCO highlights a few reasons why ESG investing is growing. For example, ESG considerations in new regulations are affecting credit fundamentals. Additionally, a new wave of changing demographics is fuelling sustainable finance. Social media is also drawing convergence in social norms.

So yes, it is more of a push than a pull factor, which is now causing boards and leadership teams to start thinking about ESG when running their companies.

Other companies have been conscious of these factors well before they came under the limelight. Such companies, being ahead of the curve, tend to thrive and will continue doing so in the long term.

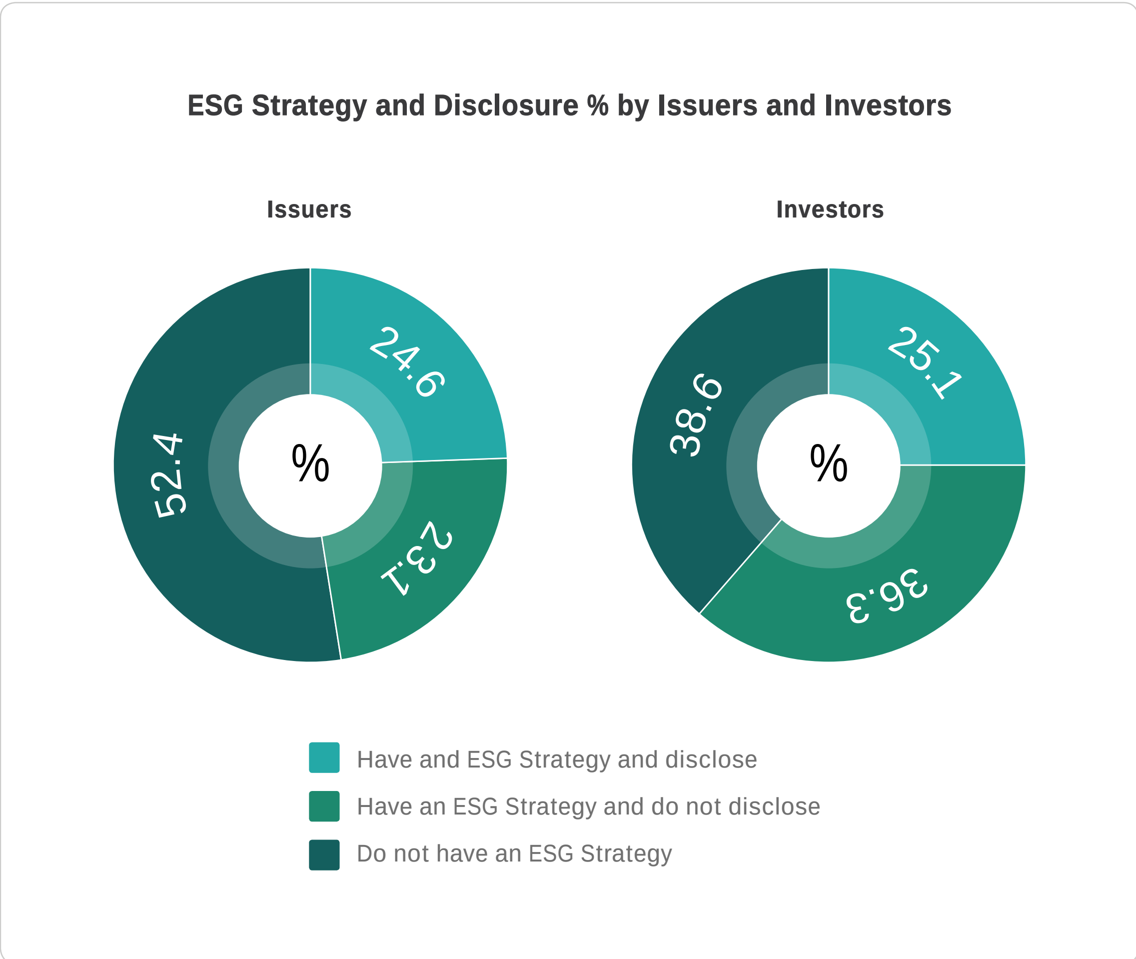
"An analysis of more than 300 of the world's largest pharmaceutical, consumer goods, oil and gas, banking, and tech companies by the Boston Consulting Group found that those with more ethical operations, for example those seeking to conserve water, make bigger profits and are valued more highly than competitors," a *Financial Times* article reports.

Proactive Disclosure and Transparency

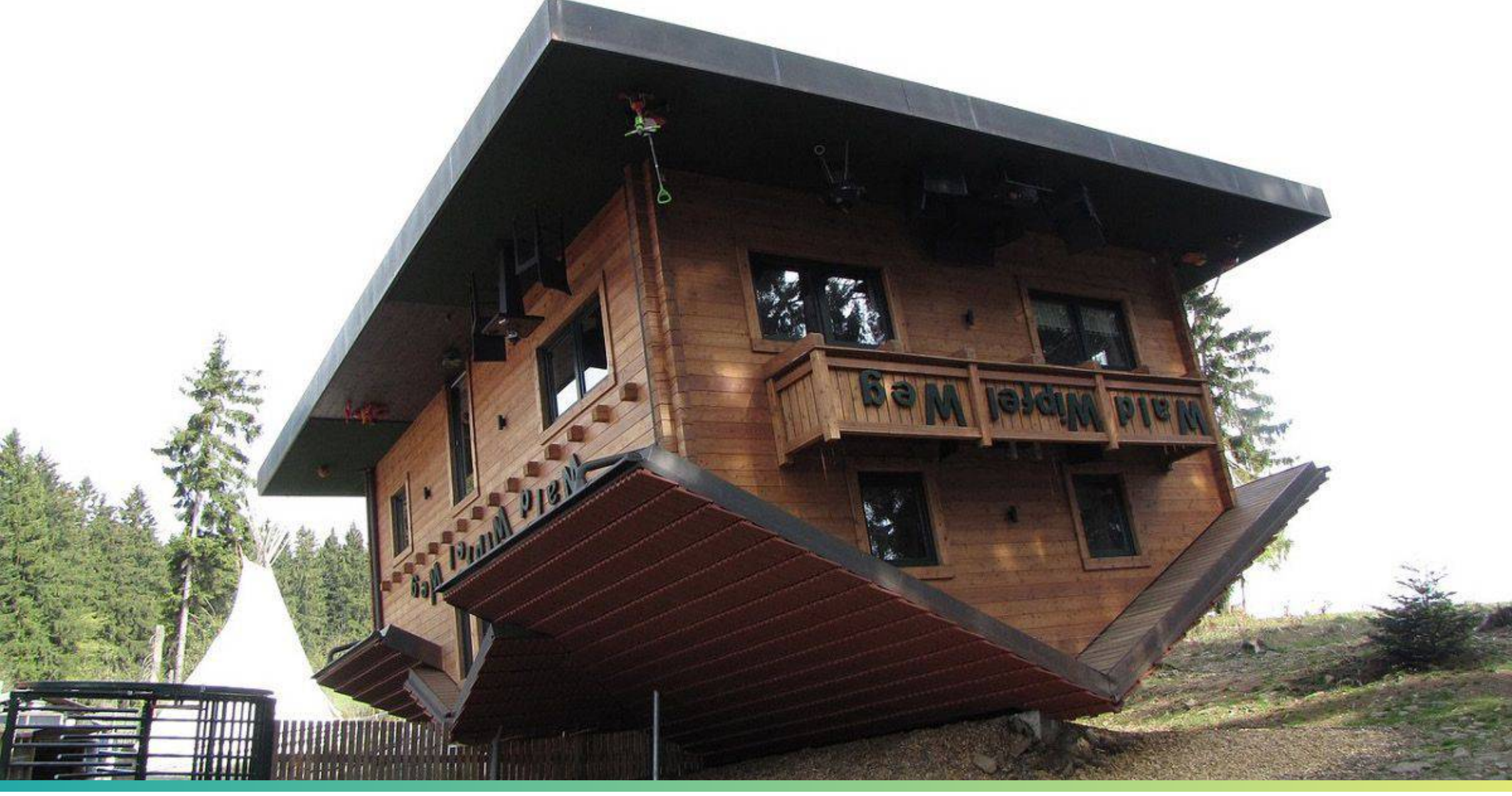
Standardised definitions and policies are still being discovered and determined. This could prove to be an obstacle in a company's path of formally adopting ESG strategies and trying to measure and represent them.

There is no clear guideline on what ESG reporting and disclosure should entail. But even disclosing that a company has one in place is just as important.

Unfortunately, about half of corporates (Issuers) that have ESG practices in place globally still don't disclose them, according to an HSBC study. That ratio is even more for Investors.



Investor Relations departments are often the first port of call for investors seeking ESG-related information. Hence, they need to be proactive in sharing this information, and also be accessible to answer related queries whenever required.



Set the Record Straight: How Better Corporate Disclosure Helps Curb Misconceptions

Fake coverage, like fake news, happens for several common reasons

Senior management and investor relations teams should always be ready to deal with undesirable news on their company to mitigate reputational damage. Such news sometimes stems from misconceptions.

How Do Misconceptions Occur?

There are several ways:

1. Inadequate Information

In some cases, analysts and investors seeking critical information for research come up short, with only publicly available documents to turn to. Limited access to information likely deters analysts from writing about the company and investors may not invest for the very same reason.

A lack of knowledge also begets a lack of clarity, creating ripe conditions for misconceptions to metastasise.

What's scary is that the company might not even find out about it. It is likely to be discussed in more private, informal circles rather than the media and the public sphere. Once formed, privately held misconceptions are much harder to resolve and clarify.

2. Inaccessibility

In this instance, the company might have already shared all the information it could reasonably share to equip analysts and investors with the resources they need to make their judgement calls.

That's enough, right? Wrong.

Analysts and investors still prefer direct contact with the company to ask follow-up questions on the information already available.

Without access to higher management or investor relations, they could easily form inaccurate opinions, even going so far as to assume the management is not transparent and is reluctant to provide clarifications about their company.

These scenarios are a bit harder to pre-emptively address. But good company access gives genuine investors every opportunity to clarify misconceptions.

3. Misinterpretation

In other instances, the company's financial records, investor decks, and relevant publicly shared documentation already provide fairly extensive information.

However, if the people investigating or researching this company misinterpret this data and go on to share their opinions, it could spread like wildfire.

The situation is further exacerbated if they have a strong following.

4. Sabotage

Companies that fall victim to sabotage often take a hit to their public image, even when they might not actually be at fault.

Disgruntled employees, customers, and competitors can all potentially be the masterminds behind such plots.

This one is tough to manage, so keep your friends close and your enemies closer!

What Could Misconceptions Be About?

Misconceptions could involve your product, security measures, a sudden and unexplained drop in the stock price, an unexpected analyst recommendation, or negative media coverage, to name a few.

Bloomberg's story of the alleged Super Micro Computer hack is a prime example of how bad news has the power to send a company's stock into freefall.

Though the report appeared convincing at first, readers should note that it was still based largely on human testimony in the absence of verifiable technical analysis.

Super Micro put out a press release on the very day the Bloomberg article went live. They followed up with a public letter signed by their Chief Executive Officer, Chief Compliance Officer, and Chief Product Officer two weeks later.

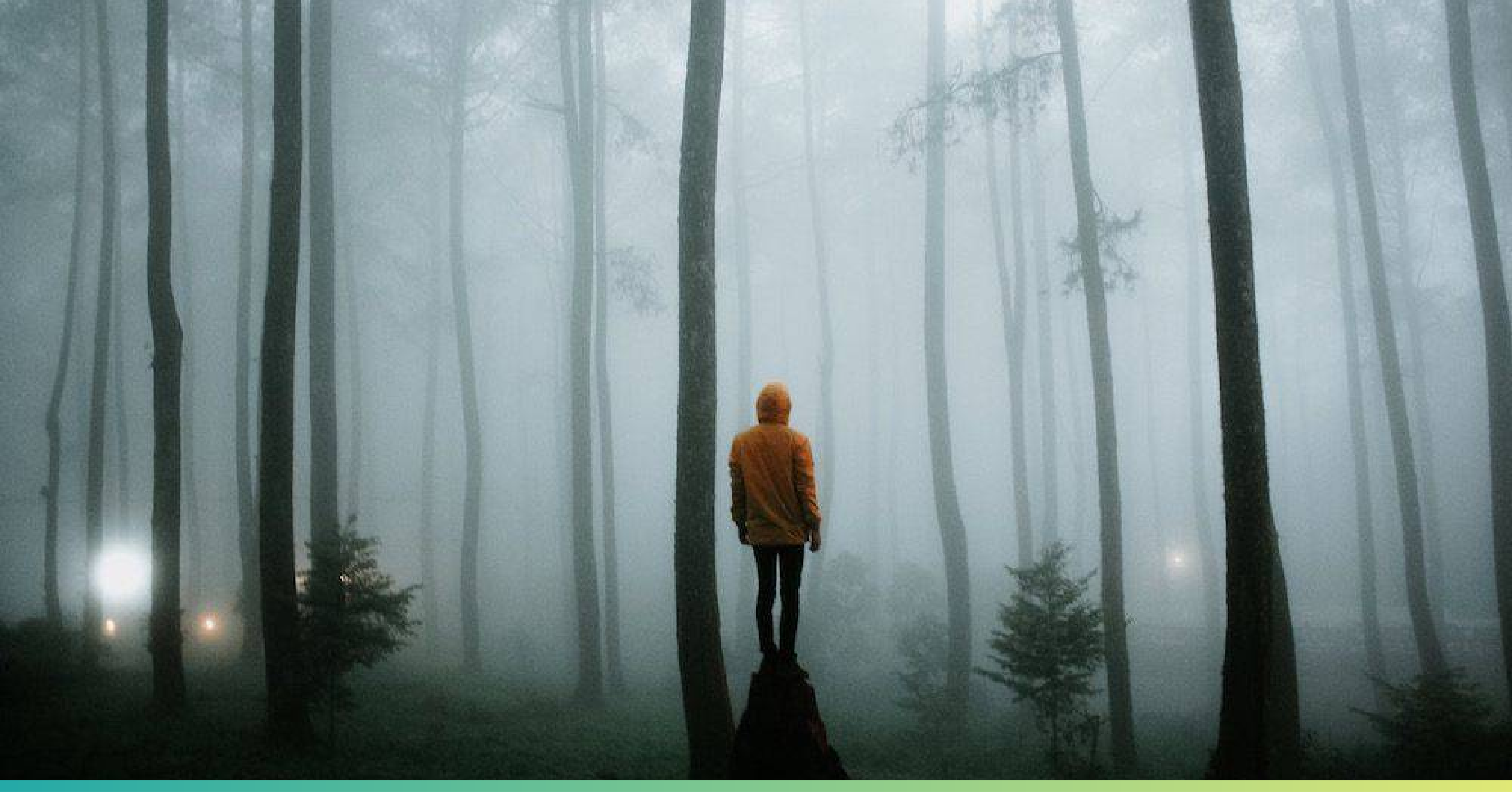
But was it enough?

Although the company has worked round the clock on crisis management, one key question remains: How were relationships nurtured and maintained with stakeholders over time?

How Do You Nip It in the Bud?

Share information often and early, not just as a pre-emptive measure for crisis management, but to foster long-term relationships with the company's stakeholders and build good will.

Being available to answer questions and address any concerns that analysts or investors have about your company can counter rumours at an early stage.



Let Transparency Be Your Guiding Principle in Navigating a Year of Uncertainty

The upsides of being open far outweigh the downsides

The beauty of a new year is the ability to start afresh. With it comes new hope, opportunities, and developments. However, as with everything new, the final outcome can be uncertain.

In its first issue for 2019, The Economist listed out a few impending events with uncertain outcomes around the world. We highlight some below.

Brexit

At the time of this writing, everyone is still guessing whether there will be a deal or not. Or whether there will be a second referendum, or simply no Brexit at all! It appears that picking at flower petals to ascertain whether "he loves me" or "loves me not", would deliver a more certain outcome.

Elections

Several countries have national elections in 2019. If votes swing in an unexpected direction (and they might), it could mean changes for businesses depending on which party comes to power. This has implications that extend well beyond national borders and the companies based within. They, and those that interact with them, will potentially have to adapt to new realities.

Economic Activity & Stock Markets

There is continued uncertainty about the global economy and the stock markets, as well. Is China slowing down? Will the American stock market be impacted?

Let's talk about an event that took place at the very start of this year.

On 2 January, Apple CEO Tim Cook announced revised estimates and lower revenue guidance for the company. He attributed these changes primarily to a more intense economic deceleration in Greater China than expected. Sales of the iPhone in China also failed to meet expectations. Apple's stock dropped 9 percent on the back of this news.

There are several ways to interpret this announcement. For one, management played down the sequential decline in revenue in Greater China, choosing instead to steer onto positive factors, such as the 19 percent increase in non-iPhone categories.

The company also did well in communicating the release of preliminary results ahead of time and preparing investors for what was to come:

"We can't change macroeconomic conditions, but we are undertaking and accelerating other initiatives to improve our results. One such initiative is making it simple to trade in a phone in our stores, finance the purchase over time, and get help transferring data from the current to the new phone," wrote Cook in his Q12019 guidance letter.

"This is not only great for the environment, it is great for the customer, as their existing phone acts as a subsidy for their new phone, and it is great for developers, as it can help grow our installed base."

Regardless, the ripple effect still sent markets into a tailspin, with investors concerned that other companies in their portfolio were potentially exposed.

What Should These Affected Companies Do?

There are several aspects, as listed above, that might impact your company - or companies related to yours, affecting you by association.

Even if you can't predict the outcome, it's important to communicate to investors and analysts that you are thinking about potential eventualities and have contingency plans in place.

Corporate investor relations teams can be as transparent as they come with stakeholders, but there will be some events that you just might not be able to foresee.

Should the unexpected occur, catching a company off-guard, the least it can do is be accessible to investors and analysts - or better, actively engage them.

Smartkarma Corporate Solutions provides companies the means to establish and cultivate these vital connections within a single networked platform.

Find out more at:
www.smartkarma.com/home/corporates

Epilogue

Investor relations teams continuously work to refine their art of communication. Done right, these efforts help set in motion a compounding effect in forming and reinforcing perceptions that favour the companies they represent.

Three takeaways characterise the gist of this ebook and what we think IR professionals should be cognisant of:

1. **Never Discount the Impact of Good Publicity:** The perceived value reaped from ESG-led initiatives only extends as far as the publicity it garners. In other words, poor or no communication hampers a firm's chances of soliciting investment from impact funds.
2. **Interpretation Matters:** Disseminating new and updated information to analysts and investors accounts for only part of a typical communications cycle. Follow-up engagement is just as important to avoid misinterpretations that might result in undesirable misconceptions.
3. **Open Those Channels:** Crises often strike at a moment's notice, leaving investor relations teams scrambling to contain widespread panic. Build open and strong lines of communication with stakeholders during the good times. When the storms hit, that's when the dividends start paying off.

While it's easier to view these takeaways as independent trains of thought, they should, in fact, be weaved into thorough, cohesive strategies undertaken by IR to communicate with key stakeholders.

Because in a world of finite investable capital, it pays to walk the extra mile.

Find out more about Smartkarma Corporate Solutions: www.smartkarma.com/home/corporates

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