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association

INVESTOR COMMUNICATION IN A TIME OF UNCERTAINTY

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Global crisis, regional implications

The first quarter of 2020 has been one of turmoil. Uncertain market conditions including Brexit, ongoing US-China trade tension, geopolitical friction in the Middle East, and most recently the global outbreak of Coronavirus (Covid-19), have alarmed investors and created immense volatility. In this white paper, we look at practical steps for communicating effectively with investors during times of crisis.

IR for mitigating impact

Key to a successful IR function is a focus on proactive engagement and communication. This is vital during business-as-usual conditions, and even more important during times of crisis. The Covid-19 pandemic serves as a reminder of the need to prepare for a crisis, by planning scenarios, mapping out risks and ensuring a programme is in place to maintain two-way dialogue with stakeholders during and after a major shock.

Planning for a crisis

Scenario mapping

If we consider Covid-19 as the most severe prevailing crisis, pandemics are very difficult to map in their entirety. Each day, IROs are presented with new and seemingly impossible challenges to overcome. How is an IRO supposed to plan for the future while navigating widespread misinformation and disparate data sources? The IR function becomes frustrated by there seemingly being little that the team can do in the face of global buy- and sell-side fear sending markets into free fall. According to a Global Survey by PwC, the Middle East's most disruptive previous crises have been Geopolitical Disruption (36%), and Cybercrime, Natural Disaster and Financial Liquidity (14%)¹, making the ongoing Covid-19 pandemic a test of the region's crisis preparedness protocols. Despite the difficulty in mapping out specific crises, a framework can be developed to classify crises by type, severity and potential outcome. By mapping, crisis-appropriate response plans can be put in place that can be activated when required.

Stakeholder identification and outreach

Identifying stakeholders and creating a water-tight investor outreach programme is an important first step in a crisis scenario. Reassurance and wider proactivity around crises should be the top of any IR function's agenda. Now, more than ever, IROs should be enabling fluid communication between the Board, management and stakeholders to gauge sentiment and reassure investors. Emergency investor updates

¹ PwC, Global Crisis Survey of 2084 respondents, 2019, accessible here: <https://www.pwc.com/gx/en/forensics/global-crisis-survey/pdf/pwc-global-crisis-survey-2019.pdf>

should be made readily available as soon as possible, delivered as newsletters, meeting minutes and updates to forward guidance. Key audiences to consider should not be limited to shareholders and analysts. Business continuity updates need to be communicated to customers, employees, communities, partners and government agencies, who all play a role in shaping your corporate profile.

Aligning teams

In pandemic events, when company protocol may dictate remote working as mandatory, disruption will be a formidable challenge in aligning internal stakeholders. Maintaining active communications channels is imperative. Timely and accurate information will prove to be an IRO's best friend in such scenarios. Creating a purpose-built communications channel during the early stages of a crisis with key members of management, including the Chairman, CEO, CFO and legal advisers provides direct access to information for IROs to develop an effective counter-crisis strategy. As a result, processes become more streamlined and efficient, mitigating the chance of confused or overlapping workstreams.

A proactive approach to investor communications

After aligning internal teams and identifying vital stakeholders, sending the right message is the next step. It is important for investors to understand how their best interests are being considered while the company addresses critical operational issues, and transparency and proactivity are the best policy. Companies must, as a minimum, establish themselves as the single authoritative source of information for business continuity policies, financial conditions, performance and outlook. Relationships with the investment community and financial media are indispensable and saying nothing is more dangerous than reporting negative results that are properly explained.

Best practice in a time of crisis

While global market sentiment remains murky, there are silver linings for how the IR function has evolved over the years, pointing to a semblance of light at the end of the tunnel. Management relationships with the investor community have improved, with corporate directives to enhance engagement with existing shareholders, regardless of the current scenario, have improved from 50.2% in 2017 to 61.5% in 2019². Business leaders and IROs have clearly demonstrated alignment towards a greater cause on behalf of the company, and many who have adopted these practices should be better positioned to weather tough conditions.

Anticipate investor concerns

During a crisis, IROs are afforded the opportunity to embark on a journey of strengthening relationships with investors and analysts. Overcoming a crisis and staying close to these stakeholders will solidify long-term and meaningful relationships built on a foundation of trust. Naturally, from an investor perspective there will be questions around short-term performance, quarterly outlook and management action plans

² BNY Mellon, *Global Trends in Investor Relations*, 2019, accessible here: <https://www.bnymellon.com/global-assets/pdf/our-thinking/global-trends-in-investor-relations-2019.pdf>

to make up for losses incurred by operational disruption. Clearly communicating these messages is of utmost importance, while the level of detail required may vary from sector to sector. Industries feeling the brunt of the crisis will naturally employ a different communication strategy as compared to those set to thrive during such an outbreak. Companies experiencing muted business activity should seize the opportunity to provide guidance to existing shareholders on how they will navigate current and impending storms. For industries that have become important to global economic continuity, there is now an opportunity to cement messaging around preparedness, and how the business is positioned to create value for shareholders.

Tactics for proactive crisis management

Thinking creatively can be what sets apart the best IROs during positive market conditions. In times of crisis, IROs should arm themselves with more fundamental tools and apply them to perfection. Sticking to the basics, and doing them well, will give any IR professional an edge in managing negative sentiment and garnering trust from a wide range of stakeholders. Building and deploying a comprehensive toolkit will be an essential platform for addressing concerns for investors:

> Press releases and statements

Proactive releases and market disclosures distributed across channels are a quick and simple way to show investors that management is actively addressing the issue and evaluating impact on company performance. Up-to-date and factual information that can be readily verified or supported is mission critical. The frequency of such statements should be measured, and adapted in accordance with the nature of the situation.

> Live Q&A

In collaboration with the crisis response team, a living document should be developed that evolves constantly, addressing all impacts on operations. Such a tool enables IROs to consolidate issues in one place for internal stakeholders to locate and use.

> Talking points

Development of clear and concise talking points or holding statements buys IROs valuable time to work towards more comprehensive announcements. Messaging addressing investor concerns will play a significant role in the weeks and months to come, and should be treated as an evolving process.

> Management calls

IROs should consider facilitating occasional calls with shareholders, sell-side analysts and bondholders who will appreciate the willingness in engaging them directly to clarify strategies. Reassurance on an action plan directly from management will bolster confidence, but such engagements need to be delivered in adherence to the principle that the whole market has access to the same information.

> **Alignment on suitable channels**

Understanding how audiences source and use company content is important during the stakeholder mapping phase. If live and consistent updates prove to be the most effective, then social media platforms such as Twitter may be the most effective in addressing concerns. If audio-visual content proves to resonate the most with shareholders, then creating content and placing it on the website or video hosting platforms may be of value.

> **Website integration**

Creating a dedicated webpage for the organisation's IR section during the crisis period provides an additional medium to investors who regularly check for updates and announcements. By building this function, IROs ensure that information is from an authoritative source and not diluted by a third-party lens, such as the media.

Perception management

When communicating with the financial community, prepare for best- and worst- case scenarios, reassuring those listening that management has considered a multitude of scenarios. As new developments emerge, the focus should shift towards adapting key messages for relevance, demonstrating commitment to shareholders. In making the best of a crisis situation, there is an opportunity to establish a reputation for competence of senior management that will help bolster long-term investor confidence.

Preparing for the next crisis

Preparing for crisis is inherently difficult. The most important takeaway in dealing with a crisis is not how IR can "spin" an uncomfortable position, but how it can improve "damage control" capability. Providing a transparent and proactive appraisal of the situation and delivering information efficiently and with sincerity and clarity is the first priority, and will help IROs build relationships for the long-term.

Case studies: updates to company guidance during the Covid-19 outbreak

Apple

Anticipating reductions to trade volumes, sales and travel restrictions, Apple announced to shareholders that the company is not expecting to meet second-quarter financial guidance. The company, which is listed on the NYSE stock exchange, made it clear that many of its core products are manufactured in China, and the country accounts for approximately 15% of its total revenue. Some institutional investors said that Apple is a buying opportunity, citing that reduced supply for the latest model, iPhone 11, may spur demand in the fall when the company is scheduled to release its next iteration of the iPhone.

Coca Cola

Expecting to reach its full-year guidance, Coca Cola announced that first quarter results will be the most severely impacted due to Covid-19. The company offered a transparent insight into their projections, with estimates standing at approximately 2- to 3- point declines in case volume, and 1- to 2-point impacts to organisational revenue. China makes up 10% of the company's global volume. The CEO of Coca Cola, James Quincey, made a point of addressing the SARS epidemic that occurred over a decade ago, while addressing the complexity of China's globalised economy.

Microsoft

Microsoft has warned investors that it will not be meeting guidance for its third quarter due to the viral outbreak, offering insight into the 'More Personal Computing' segment of USD 10.75 billion to USD 11.15 billion. Supply chains in the region are returning to operations at a slower pace than anticipated, but other than this the remaining components appear unchanged.

InterContinental Hotels Group

IHG announced that 160 hotels are closed in China, including new guest admittance. The company detailed that it is anticipating a USD 5 million hit for February in China. Chinese operations account for less than 10% of group operating profit, with Keith Barr, CEO of IHG, telling investors that the postponement of hosted conferences will play a role in affecting operations. Mr. Barr also addressed the Chinese government's ability to stimulate economic growth in times of crisis, which is unlike any other developed country.

By providing guidance on the outlook for each company, the management teams have built stronger relationships with investors, and provided reassurance on long-term company performance, over natural instincts to panic in light of market conditions. Looming global crises threaten to affect companies across markets, but reassuring investors with an honest appraisal of future performance is proving valuable. By providing updates to guidance during a crisis, organisations demonstrate operational integrity while ensuring that investors are aware of wider macroeconomic conditions affecting their industry.

Concluding remarks

A number of global events that have occurred since the beginning of the year have driven market uncertainty in the region, with many unable to predict the final outcome of the Coronavirus pandemic. Looking forward, 2020 will prove challenging for even the most seasoned IR professionals. But this can also be seen as a professional growth opportunity for the industry, proving to companies across the world the importance of investing in a robust Investor Relations programme.



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