NIRI LA – How to Effectively Engage and Compete for Capital

The NIRI Los Angeles Chapter hosted a luncheon on September 29, 2016 with a real-world discussion on effective ways to engage and compete for capital. The panel, moderated by Stacy Felt, CFA – The Cheesecake Factory, included:

- Reena Bajwa – DoubleLine (Buy-Side)
- Carolina Campbell – Evercore ISI (Corporate Access)
- Noah Mayer, CFA – Hotchkis & Wiles (Buy-Side)
- Benjamin Mogil – Stifel Nicolaus (Sell-Side)

The panel represented a wide variety of industries and discussed:

- How companies can differentiate themselves in the current landscape;
- Who is seen as best-in-class and what attributes of their IR programs make them stand out, and
- What are some of the mistakes that IROs make.

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Requesting Analyst Models

Some IROs request the latest analyst models prior to earnings to compare to consensus and identify outliers. It was noted that not all analysts respond to those requests or share their models. We were reminded that the buy-side does have a business model to generate revenue and analyst models are what generate their service revenue. Also, third-party vendors aggregate analyst models, and some firms question if they should give away their proprietary work. Most importantly, unpublished models are never shared. Best practice for an IRO that has an analyst pushing out significant estimate outliers is to ask the vendor (Thomson Reuters First Call, Factset, etc.) for that analyst to be excluded from consensus.

How to Get on an Analyst's Radar / How an Analyst Decides Which Companies to Cover?

- Is it scalable?
    - If the company is a one-off, like Live Nation or Madison Square Garden, it can take a disproportionate effort and a lot of money to educate the sell-side. In that case, IR plays a critical role in arranging NDRs, meetings and C-Suite access. Access to presentations and podcasts are helpful.
    - IROs can reach out to analysts who cover adjacent business spaces to see if they will cover your company.
- Analysts will do NDRs and invite a company to their conference even if they don't cover them.
    - Typically prefer meeting be attended by the C-Suite, not just the IRO.
    - Be mindful of limited resources. Most analysts are happy to take a company on the road or invite them to their conference without coverage. This can be a good way to get a foot in the door/build a relationship with the analyst.

- Don't limit outreach to only those with a Buy rating; keep an open mind. Approach analysts with a Hold or Sell rating as an opportunity to change their mind. For example, a DreamWorks analyst had a Hold/Sell rating for five years. The rating was moved up on the basis of an NDR meeting when the analyst met new management and gained a deeper understanding of the business. As a reminder, Buy ratings can easily flip as well.
- IROs should maintain a relationship with all analysts, regardless of their rating. The only exception could be a non-factual or slanderous analyst that refuses to hear your story from you. In that scenario, excluding the analyst's estimates from consensus numbers is a good first step.

Comfort Level to Meet Only with IRO?

- If an analyst is interested in a company they will likely meet with the IRO.
- A buy-side PM mentioned he doesn't learn when someone they are meeting with isn't saying something of interest to them. Best practice is to ask the analyst (buy/sell-side) before or at the onset of the meeting what they want to discuss. (This goes for all meetings, not just IRO meetings).
- Demonstrate candor and honesty. Analysts are used to companies with warts on them – they expect warts – all companies have them. Don't focus only on the positive. Speak to negatives openly, what went wrong, and plans to fix them.

Best-in-Class Attributes in Dealing With the Street

- Disney was noted for its consistency. The company doesn't offer guidance and gives equal access to all.
- Be proactive – make sure no one is surprised by a one-off. Call out in advance any problems.
- Provide broad communication and access to presentations. Transparency is vital.
- Fed-Ex does a day with the buy-side only and grants them full access to management.
    - Most common among large cap companies, but the buy-side appreciates access that isn't contingent on the sell-side.

Best Practices Around Guidance

- Guidance is irrelevant to a value investor, but they find it interesting.
- Sometimes guidance isn't credible for certain industries due to limited visibility. No one is benefiting if your business doesn't lend itself to guidance. This may make it more challenging to get covering analysts, but ultimately those analysts will have a better handle on your business.
- If you do give guidance, consistency is key to building credibility – analysts want you to want to meet/beat short/long-term goals. It makes analysts look good to get it right.
- It's perfectly acceptable to provide a wide guidance range if lumpiness is inherent in your business as attempts to be precise may backfire.

What Mistakes Do IROs Make?

- Can better manage Corporate Access. Give details up front (start/stop time; who you will/won't meet with, etc.). Ask a lot of questions about targeted investors. Ask for anecdotal information. Make sure you are using the most recent information (analysts at particular funds, etc.)
    - Corporate Access teams have a number of constituents they have to please. It's a very nice gesture for an IRO to allow one of their meeting slots to go to someone who is a priority meeting for the Corporate Access team.

- A policy to not meet with hedge funds hurts opportunities and is short-sighted. Hedge funds should be carefully evaluated and not automatically be rejected. Hedge funds provide liquidity (which can be important for small caps). Corporate Access is unbiased.
- Be open-minded and limit stereotyping based on fund strategy. "Value" doesn't necessarily mean declining industries. Analyst turnover at a particular firm could be indicative of a short-term investment strategy.
- No misleading, sugar-coating, or untruthful statements. These will have a negative impact on credibility.
- Some IROs and executives spent too much time on the "promo reel" when most analysts are focused on the business economics.
- More information is always good. Explain any one-time adjustments and provide enough detail so analysts can bridge the gap themselves. This is particularly relevant with pending changes to Non-GAAP and revenue recognition ruling.

Takeaways

- ❖ While it may be obvious, stick with IR best practices.
- ❖ Don't lie/mislead/sugar coat. Truth comes out and analysts remember. Be trustworthy, credible and transparent. Don't lie by omission, i.e., ignoring poorly performing product line or business segment.
- ❖ Be forthcoming when things are less than perfect.
- ❖ Don't share non-public information. Analysts do not want it.
- ❖ Don't be defensive.
- ❖ Broaden targeting and limit style stereotyping.
- ❖ A story stock alone is not enough – it requires economics to get analyst interest.
- ❖ Don't let a Hold or Sell rating stop you from scheduling an NDR or attending a conference.

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