Investor Relations Practice Post Covid-19

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About HKIRA

Founded in 2008 with over 900 members mostly working for companies primarily listed on the Stock Exchange of Hong Kong, Hong Kong Investor Relations Association (HKIRA) is a professional association in investor relations (IR), comprising IR practitioners and corporate officers, who are responsible for communications between corporate management and the investment community. HKIRA is dedicated to advocating the setting of international standards in IR education, advancing the best IR practices and catering for the professional development needs of those who are interested in pursuing a professional career in IR. HKIRA's members are from a wide spectrum of professions including IR, finance, accounting and company secretarial to corporate investment and hold positions at different corporate levels, including top executives responsible for IR and management of listed companies. For more information about HKIRA details, please visit our website http://www.hkira.com

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Background and Introduction

The sudden emergence of Covid-19 has changed the practice of Investor Relations dramatically. The pandemic is affecting different countries and communities at different times and to different extents. As a global profession dependent on building and maintaining relationships and attracting investment from around the world, Investor Relations will have to cope with the impact for some time to come.

In many respects the underlying principles of Investor Relations remain unchanged built around:

- integrity;
- high standards of governance and disclosure;
- a consistent corporate message delivered thoughtfully in focused communications - both proactive and responsive; and
- bringing together finance, operations, strategy, ESG, company specific knowledge, industry knowledge and other relevant factors to promote the value proposition of a company.

However just about everything else has changed, particularly in the way we execute our roles as social distancing and travel restrictions impact on events and relationships.

In the following pages we therefore pose, and address, seven questions to help provide guidance on these issues, together with ideas, insights and potential solutions. Where possible we have provided links to some useful articles for further reading.

We hope this will provide Investor Relations professionals in Hong Kong with useful ideas and the starting point for further conversations and actions to improve the efficiency and effectiveness of our roles through this difficult time.

Q1. Investor Targeting: Should I be focusing more on existing or new shareholders? And what do investors want in the current environment?

As a general principle, companies should focus on both existing and potential shareholders in their investor engagement and outreach to create the most value for the company, as well as for its shareholders. During the challenging time of Covid-19, investor relations professionals should prioritize the outreach effort and stand in the investors' shoes to gauge their needs and perspectives more so than usual.

Investors also have their own priority lists of engagement. In the early stage of the outbreak, your existing shareholders are likely to go through each of the companies in their portfolios and decide which companies require more of their attention. As long as they are convinced that your company remains strong fundamentally, they will turn their attention away from your company and focus on those that they are concerned about. It is critically important to reach out to your existing shareholders at the early stage to demonstrate the strength of your company and convince them that the long-term investment thesis remains intact despite the short-term but significant disruption of Covid-19.

The stock market turmoil in March might have made the valuation of your stock look more attractive; however, most of the investors are not looking for new additions to their equity portfolios at that critical time. Nevertheless, some of your existing shareholders may take the opportunity to build up into a full position given the familiarity of your investment story and growth opportunities.

As the pandemic evolves, the stock market was relatively more stable in May and June. At this stage, your potential shareholders may take a more serious consideration of building a position in your stock. These investors tend to be the targets that you are already in contact with prior to Covid-19 and have been staying on the sidelines for some time probably due to demanding valuation or yield requirements. The market volatility might have opened up a good opportunity for these new shareholders and hence it is now a more appropriate time for you to revisit your targeting list. With offices closed and business travel banned, investors who are outside the popular roadshow cities are likely more receptive to taking virtual meetings, allowing you to reach out to more potential investors.

The role of investor relations has never been more relevant at the time of uncertainty. Personal relationship that has been built with investors through multiple face-to-face meetings at roadshows and investment conferences proves to be most valuable at the time of uncertainty. When there are many unknowns and no immediate end in sight at the early stage of Covid-19, shareholders tend to seek reassurance directly from the management. Understandably, your management team would be occupied by works relating to combating the pandemic and designing mitigation measures. However, a good investor relations professional is obliged to raise the investor concerns to management and provide access for shareholders.

As Covid-19 hits almost every industry and every market, investors look for details about the impact on your sales, operations, profitability, liquidity and financial stability. The challenge for most companies in their investor communication at the early stage of the pandemic is the availability of quantitative information. Companies can help investors navigate the uncertainty by sharing the mitigation measures that are put in place but should bear in mind that it is also not the right environment to be too optimistic as the pandemic is still evolving.

Generally, investors look for timely disclosure and they will appreciate quarterly or even intra-quarter updates from the companies during this uncertain time. As the lockdown to combat Covid-19 starts to ease in some markets, investors would like to hear about companies' recovery plans. While the pandemic has affected all walks of life and the interaction between customers and companies, long-term investors are also interested to find out how companies will adapt to the new normal. New questions on adaptation of customer experience journey, acceleration of digitalization, potential modification of business model and ESG risk management may come their way in the current environment.

Q2. How can we engage effectively with brokers & investors when face-to-face meetings are infrequent, most investor conferences have been cancelled and roadshows to international cities are almost impossible?

It is likely that complete or partial travel restrictions will be with us for some time. While that will render all but local face-to-face meetings impossible, it is important that stakeholders know that investor relations teams are operating as normal, available, responsive to queries and open to a wide variety of communications. There are a number of techniques available and a range of potential actions are listed below

- Contact the major brokers covering your stock and let them know you are available to address any issues and concerns - they will soon spread the word to investors.
- Consider greater (yet still focused) use of email, social media and proactive phone calls to maintain relationships.
- Be more proactive in issuing voluntary announcements and disclosures when you have a message to communicate, ensuring that they are succinct and relevant
- Consider newsletters or a monthly update email to your distribution list.
- Make yourself available for early morning / late night calls with international investors in different time zones.
- Become familiar with and make use of E-meeting tools to facilitate interactive tools include Skype, Zoom, Webex, Tencent meeting and others.
- Stay in touch with corporate access teams of the sell-side and ensure that you are aware of upcoming events, e-conferences and group-call programs they are organizing that are relevant to your sector and your company.
- Proactively engage with brokers to arrange small group conference calls / updates / Q&A sessions with investors.
- When you can participate in the virtual conferences hosted by sell-side, offer speakers for particular topics relevant to your company and participate in virtual panels. In recent months various brokers in Hong Kong have hosted virtual conferences to connect Asian companies with investors around the world during lockdowns through video conferences in the mornings and late afternoon Hong Kong time. There are likely to be more virtual conferences during the rest of 2020, so stay connected with brokers and watch out for new events.
- Most of all stay proactive and engaged. This is (we all hope) a once in a lifetime event yet it may change many behaviors permanently, so don't be left behind.

【Further Reading】“Investor Communications in Times of Uncertainty” by FTI Consulting

Q3. How do you maintain communication between the C-Suite and investors at this time?

The lack of regular investor conferences, and the potential lack of international business travel by company executives, may appear to reduce the number of opportunities for engaging your C-Suite in Investor Relations activities.

The best approach is to consider this a challenge to actually improve communication and engagement: without as much travel the C-Suite should have more time and may feel more comfortable engaging with a range of investors electronically, including those in far flung locations who were previously inaccessible.

Arguably the visibility and integrity of the C-Suite in difficult time has many times the impact of the same people when times are good. Leaders who can demonstrate clarity of purpose, decisiveness and empathy with the difficulties being faced by stakeholders are likely to be well remembered as better times emerge. For Investor Relations professionals, the challenge is to first of all make sure that the C-Suite is well informed of the issues most relevant to investors, provide the right opportunities to engage and ensure the right balance of messages in their communication.

- Keep your communication with the C-Suite at a high level by providing useful daily / weekly / monthly updates on share price, PE valuation, short interest levels, dividend yield and bond prices for your company and peers. Send notes on feedback received from investors and analysts, and where possible engage them in providing responses.

- Provide weekly/ monthly reports in an engaging format that includes:
    - Key events that may have impacted investor sentiment
    - Investors & Brokers whom you spoke with and the key issues raised
    - Update of share price, bond price and comparison to peers (perhaps on a weekly & year to date basis, or since February 2020 to show the fluctuation since the pandemic started to impact markets
    - Provide copies of, or relevant extracts from, broker reports for your company, selected peers and industry
    - Summary of Target Price and recommendations for Self and Peers

- Proactively engage the C-Suite and highly recommend them to include something like Chairman/CEO statements in any regular updates to investors, assuring their importance of participation. Providing personal interaction with the C-Suite will help promote the relationship with investor and reassure them that the company has not forgotten them.

- Ensure that the opportunities that you are providing the C-Suite for engagement are highly impactful and well attended. Do your research and ensure the events are genuinely relevant for your company and your sector.

- Consistency in communication is always a positive. However, in these circumstances some materials may need to be unique and created specifically to address the current situation. Make sure that they are prepared with the same "voice" as your regular communications: the materials and messages should be a natural extension of the personalities of the C-Suite, not a sudden and uncharacteristic divergence that will be seen as fabricated or lacking authenticity.

- Finally, given the general acceptance of Zoom and other e-meeting tools, consider this a potential opportunity to increase geographic coverage to significant investors, particularly those in more remote locations who you previously may not have been able to see. It is far more time efficient.

Q4. Is it possible to conduct analyst briefings, AGMs and even investor strategy days in the current environment?

For many years, Investor Relations teams have utilized live webcasts with question and answer capabilities as part of results announcements and investor briefings. Most analysts and investors are familiar with such events and happy to participate live or to view archived versions. There are many well credentialled local and international service providers who can co-ordinate and conduct such events, including different formats such as slides with voiceover only, slides with video, live or web-based Q&A, and multi-language capabilities. However, there can be complexities to such events so ensure you undertake significant planning:

- Check out different service providers to get exposure to different ideas, check their professionalism and build your working relationship
- Make sure your venue is appropriate and that the event set-up is professional
- Ensure the CEO, CFO and others are aware of the setting and their roles in the event. Rehearsal is highly recommended to get presenters familiar with the format
- Make sure you allow for adequate testing of systems ahead of time and ensure you have back-up and contingency plans in place
- If you have previously undertaken a combined live and webcast event and are moving to a webcast only event make sure that all participants are aware of the changing dynamic: without a live audience there will be a lot more scrutiny on the presenters with consistent close-up angles of people's mannerism, body language and behavior.

Holding a hybrid AGM is another step-up in the complexity of arrangements. AGMs have greater external regulation and constitutional procedures which must be adhered to, as well as the complication of voting requirements. Nonetheless there are many benefits to a hybrid AGM including:

- Members who cannot attend physically can join remotely on their own devices;
- Voting can take place in real time with results known instantly;
- Potential reduction in venue and production costs; and
- Projecting an image of global best practice in servicing shareholders.

HKIRA held a webinar on the benefits of holding AGMs amid Covid-19 uncertainty and a link is provided to this content below (accessible by HKIRA members).

Another traditional form of investor engagement has been through investor strategy days. Such events are entirely at the discretion of the company (rather than required by regulation or listing rules). They are usually conducted to highlight new strategic initiatives or to bring visibility to senior management not usually exposed to investors.

The first and most significant question is whether there are genuinely significant enough initiatives or changes in the company that require engagement at this point in time. The second question is whether a virtual format will be able to achieve this, or whether you are better deferring to a time when traditional investor days can resume.

If you do decide to go ahead consider some of the following points:

- In virtual meetings, the attendees can be easily distracted; the challenge is to keep them engaged. So how do you drive audience engagement in new and creative ways?
- Plan for a shorter meeting, maximum 2 hours, with 30-40% of time reserved for Q&A
- Video is a powerful tool if used right. In addition to your corporate speakers, consider testimonials, product demos or virtual factory tours. Here is your chance to be creative
- Fireside chats, panel discussion with a moderator add life to the event but need extra planning when everyone is in a different location
- Your presentations need to be shorter (probably half the number of slides you would typically use) and be message driven – short sentences, very few words, simple diagrams
- The use of technology has to be seamless, and management has to be on top performance. So, the best advice is: rehearse, rehearse and rehearse

Examples of successful Investor Days held recently include GoDaddy, Medtronic, 2U, BAT and Neste.

【Further Reading】

"How to hold AGMs amid Covid-19 uncertainty?" – HKIRA Webinar

"Impacts to general meetings in light of the recent new regulation imposed by the HK Government" by Tricor

Updates on arrangements for general meetings ("GMs") by Computershare

Q5. How should we approach guidance on operations and earnings in an uncertain world?

As extreme volatility in economic, business and stock market conditions are prevalent, investors are likely to seek increased transparency from corporates in the current environment, including regular guidance on forward financial projections. This presents investor relations professionals with some unique challenges. Specific financial guidance is likely to prove extremely challenging given the inherent uncertainties around how the Covid-19 situation will develop in the short term or whether longer-term structural economic or business climate changes will take place as a result.

Nevertheless, Investor Relations professionals should maintain open and transparent dialogue with investors ensuring they understand business sensitivities to a range of economic, business-specific factors and earnings drivers. Where possible, existing public disclosures should be utilized to discuss sensitivities to various scenarios.

Frequent dialogue with a range of stakeholders will ensure that company management and investor relations professionals are aware of ‘knowledge gaps’ and areas where further qualitative and quantitative disclosures may be considered. If deemed relevant, disclosures should be made at the next available opportunity.

Communication with market participants should also incorporate detail of mitigating actions that have been undertaken by, or available to, management to protect investors, employees or other environmental impacts in response to events.

In the event that market expectations differ materially to those of management, investor relations should consider whether it is necessary to issue a formal business update to the market.

Being consistent in your approach will, as always, be very important the following outlines some different strategies you may want to consider.

No Guidance

- State that the company will not provide guidance or forecasts, as future events cannot be predicted with certainty, including the impact of second or third waves
- Point to future events that may provide greater clarity on background information or financial performance (e.g. the next quarterly, results announcement, or conference)

No guidance but provide regular business updates

- Consider voluntary announcements like business updates and positive or negative profit alerts published before the end of financial period. This can be a crucial element for managing expectation. You may wish to include statements such as "We are unable to provide forecast; however, we should keep the investors well informed about the latest financial situation."
- Disclose key operational statistics to keep investors informed on the latest trends
- Focus on mitigation initiatives and indicate qualitative or quantitative outcome. Discuss challenges in business operations or customer sentiment.
- Leverage industry data release by third party external research institutes (if available) to keep analysts updated about industry trends and individual company performance.

Providing scenarios and stress tests

- While you may not be able to provide guidance, you may be able to present scenario analysis and stress tests to highlight earning drivers so that investors can develop a holistic picture and make their own forecast judgment.
- You may be able to utilize existing earnings sensitivity disclosures in sell-side/buy-side communication, rather than specific guidance, to ensure a fair market. If they do not exist, consider introducing them.
- Take into consideration what sell-side analysts/investors are asking for and consider providing it in formal disclosures.

Providing Guidance

- If you are able to provide guidance, avoid quantification unless you are highly confident of your assumptions and outcomes. You may wish to consider a range rather than specific numbers and paint a picture of the likely direction of influences and key uncertainties involved.
- Preferably stick to traditional metrics you have used in the past.
- Do not over-promise or, on the other hand, be overly-alarmist about the situation.

Whichever approach you and the company decide on, remember the principles of good investor relations communication. Maintain open and transparent dialogue with investors while always ensuring you avoid selective disclosure.

Q6. Is now the time to focus more on ESG or are investors not interested in the current environment?

"In the midst of every crisis, lies great opportunity." – Albert Einstein

Recent study by HSBC Global Research found that climate solutions providers and high ESG-rated stocks outperformed during the Covid-19 outbreak period[1]. This is a strong evidence that investors value companies that are more committed to ESG. The firm's long-held, core ESG conviction is the simple idea that issuers succeed long-term, and hence deliver shareholder returns, when they create value for ALL stakeholders – employees, customers, suppliers, the environment, and wider society.

J.P.Morgan Cazenove expected global Covid-19 crisis to act as a wake-up call for increased action against long-term sustainability risks. It is believed that global Covid-19 crisis impacts actually reinforced some of the long-term drivers behind ESG investing. Its survey found that investors tended to perceive ESG stocks as likely to be more resilient, while research highlighted that ESG strategies had provided good protection against drawdowns. However, it would likely lead to a more "balanced" approach of ESG, by reinforcing the role of the "S" and "G". It is believed that the global Covid-19 crisis would foster the rise of stakeholder value approaches[2].

With the Covid-19 crisis, here comes the opportunities.

In addition to ongoing ESG commitment, companies can explore more ESG initiatives arising from the change in work and life brought by Covid-19: Has the company provided protection to its employees in the workplace, in terms of both pandemic prevention supplies and job security? With the restriction in social distancing and increasing reliance of online platform to receive information, is there anything the company can offer to the elderlies and underprivileged to stay in touch with the society or keep up their education? Has the company maintained a sound governance system and enhanced communication with its shareholders during this period of uncertainty? Don't forget to outline those initiatives and let your investors know what you did on ESG during this period.

[1] HSBC Global Research, "ESG Matters: Climate and ESG outperforming during COVID-19", published on 25 March 2020

[2] J.P.Morgan Cazenove, "Stay safe and think long term, DATA-Driven: COVID-19 likely to be a long-term catalyst for more balanced ESG Investing", published on 30 March 2020

There is a growing trend in ESG investing. IR practitioners can leverage this opportunity to bring the message to your C-Suite about the importance of a clear and well-defined ESG strategy to the company from investor's perspective. Rather than just checking the box to meet the ESG requirements, formulating and implementing a comprehensive and all-rounded ESG strategy will keep the company well in time of crisis and reduce sustainability risk, and hence increase stakeholder's value.

【Further Reading】"ESG Integration under Covid19: The Case of China" by Robeco

Q7. What can I do to demonstrate that my company is ready to operate in a post Covid-19 environment?

It is important that you thoroughly understand and can articulate to investors how your company is responding to Covid-19. Examples may include the following:

- Measures the company has put in place to ensure the resilience of its operations through the most difficult periods of the pandemic and how the company is positioning for re-emergence post Covid-19.
- Operationally you may wish to outline how you protect your staff, customers and suppliers during the Covid-19 pandemic, for example:
  - Rigorous adherence to government protocols
  - Special work arrangements (working from home, split team shifts, extra cleaning of the work place and facilities, increased spacing in staff common areas etc.)
  - Highly visible health signage & daily health advise updates via internal platforms
  - Temperatures checks, health declarations and contact tracing information at staff entrances for staff, guests, customers and suppliers prior to entering premises
  - Operational adjustments to minimize any chance of virus transmission
  - Mandatory wearing of face masks and ready supply of hand sanitizer Increased and heightened building hygiene and cleaning procedures
  - Protocols for staff to inform work if unwell, avoid coming to work and self-isolate

On a broader level, and looking at how the business is prepared to emerge successfully as the worst of the Covid-19 pandemic passes you may consider emphasizing:

- Cost control measures you have implemented, and how these can be phased in / out as the situation evolves
- Similarly, how you are adjusting capital expenditure. What is driving your strategy and capital allocation
- How you are managing cashflows and implications for bond/ loan default risk
- Any programs you may have to provide payment assistance measures for customers or suppliers under financial stress

Ultimately it is about being able to demonstrate resilience, reputation and agility:

- the financial and operational resilience to have adapted to and survived the initial impact of the pandemic, emerging with strength and purpose;
- the implementation of programs to preserve the reputation of the company with stakeholders including employees, customers, suppliers, regulators and the community; and
- the agility to identify opportunities to enhance operations and meet the need for new products and services.

Conclusion

With the widespread of Covid-19 across the world, face-to-face meetings have been canceled in light of health and safety concerns, and virtual meetings have become the new norm.

Although in-person meetings are not feasible during the current pandemic, there are still ways to maintain effective and consistent communication with investors in the workplace, such as ensuring frequent dialogue by providing regular reports, Chairman/CEO statements etc. to fill in the knowledge gaps between various stakeholders.

Lastly, in preparation for a stronger operation in a post-Covid-19 world, a company is recommended to embrace and demonstrate the three critical elements of resilience, reputation and agility.