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LENDING SOUNDNESS

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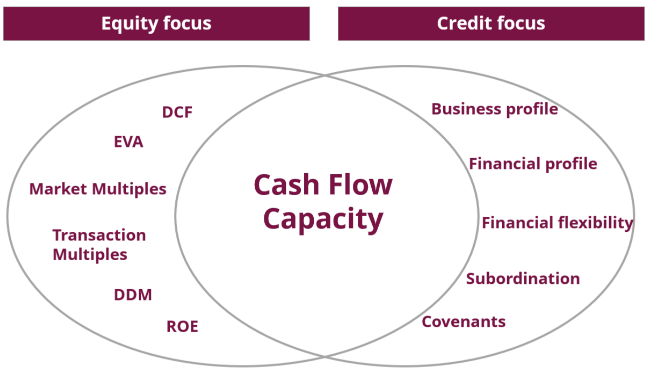
Investor Relations Insight

Issuer versus investor driven financial markets
The last few weeks brought a more sudden tide change then ever from issuer to investor driven financial markets. Indeed, while «B» rated corporates could almost effortlessly raise new debt at compressed spreads from desperate investors beginning of this year, top-rated corporates today need to offer twice the yield of last month to refinance their liquidity needs. In a provocative way, one could say that during an issuer driven cycle many investors don't take credit analysis seriously enough, while many issuers often lack the required level of investor relations (IR) attention during the opposite cycle. This paper evaluates IR against the background of the new and highly challenging environment while being fully applicable throughout general economic cycles.

Knowing your IR relevant constituencies
Each effective IR starts with a list of relevant constituencies. This recommendation does not imply the existance of a conflict or trade-off among themselves. Indeed, when looking at the core constituents of equity and debt investors, there exists a strong and undeniable link as both focus on the quality and potential of the business profile that translates into a solid cash flow generation capacity:



While a company's complete constituency list is much longer, experience shows that many companies apply a too narrow focus when it comes to IR. A good reference example can be:

- Equity investors
- Debt capital market (DCM) investors
- Debt money market (MM) investors
- Intermediaries (syndicate, sales)
- Credit analysts (rating agencies, bank credit analysts)
- Financial counterparties (credit lines, repos, derivatives,...)
- Financial press

Shareholder information is widely defined by law, stock exchange rules, company by-laws and internal regulations. Nevertheless, equity investors should not be forgotten in an IR strategy.

DCM (debt capital market) investors often occupy the center stage in an issuers IR strategy, besides the omnipresent equity investors. This high focus can be explained by the relative frequency at which many corporates tap the primary bond markets or the fact that most investors perform a full review of credit lines at least annually incentivising the issuer to support the investors' renewal process of lines with a meaningful coverage.

Money market debt products like CDs or CPs are sometimes bought by separate names but they are often a by-product of a well working DCM relation or vice versa a way to win a new investor before bringing the name into a bond order book. In any case, both fixed income market segments often have their own dynamics and don't have the same focus points, like credit events in the DCM or issuance calenders for MM.

Closely linked to debt investors is the coverage of credit analysts, especially rating agencies whose business model is to provide debt investors with default and recovery probability assessments. In this regard, PILFOR published a Rating Advisory Insight in December 2019 that can be retrieved from its website here.

An IR constituent group not to be neglected throughout the year and requiring special attention are financial counterparties for cash, contingent or derivative products, typically a mixed portfolio thereof, that a corporate treasury is or might in the future be requiring. The related exposure such financial counterparty is expected to take, sometimes at short notice, calls for an equally strategic IR approach as opposed to one-off efforts when envisaging a trade or facing a liquidity shortage that cannot be covered in the money markets. Today's environment certainly offers an example of how valuable a well managed relation to key financial counterparties can have.

Last but not least, the financial press can strongly contribute to the assessment of above discussed groups and its top tier exponents have to be proactively covered accordingly.

Calibrating the language in IR documents
A tested format that the recipients are familiar with and that changes rather organically over time, combined with a recurring season and frequency of communication is a very powerful tool to transport the message that board and management are on top and in control of things. A clear and straight forward language further supports such effect. A well tried and tested standard communication puts a company also in a much better position in a demanding environment or to frame the release of difficult, extraordinary company news.

Obviously, not the same content is equally relevant for each recipient group, and not all require the same level of detail of relevant facts. A journalist will often be satisfied with high accuracy and speed, while credit analysts require a much more detailed picture. What must not be forgotten by companies with listed debt or equity instruments in this regard is the universal principle of regulated information that ensures that price sensitive information be disseminated to all affected parties simultaneously.

One prominent discussion point in many companies is about whom to inform pro-actively and whom retro-actively, i.e. upon request only. Experience suggests that a reactive communication tends to be always weaker and less effective and that an update in very brief format can be much more supportive.

The investor relations section of the company website is the main point of reference and has to be critically reviewed as often as possible. Many companies miss the chance when meeting with IR relevant constituencies to ask for an open feedback and areas for improvement.

Personal meetings in times of digitalization
DCM and ECM investors contributing to issues in size usually expect personal visits at varying frequencies, often on a one-on-one basis. To win new investors without an approved credit line, a meeting is often the most effective measure for an issuer as well. Generally, all investor related data collected from roadshows, both related to credit as well as portfolio management criteria, are of high value and have to be maintained and used in a dedicated database.

While major investors holding a considerably exposure or being in the process of doing so, require regular one-to-one meetings with management and IR, meetings, smaller investors are often invited as a group and integrated into capital markets days for each relevant financial centre and typically take place some time upon the release of results.

In spite of developing trading platforms, intermediaries are often recipients of informal and quick credit related investor questions in the regular course of business and thereby act as «ambassadors» for an issuer, often without its full awareness. Occasional personal updates to the desk of a key debt origination partner to align and update the credit story is a very effective complement to the IR approach towards debt investors.

As to financial press coverage, at least the top tier group of most relevant media should be regarded as IR partners rather than opponents. Meeting the desk or person in charge for a coffee from time to time for a general update, and acting as a willing source of general market or sector updates is usually a wisely invested time for more hectic corporate periods to come.

CEO and CFO to set the tone, front offices to follow
IR is a key management task in the general value creation of a company, with the CEO and the CFO each playing a well orchestrated and co-ordinated role. Equally important is a profound understanding by all front office members of the critical points of the investor debt / equity story in order to be equipped for their daily contact with the outside world. Erratic, inconsistent statements by the various staff members to market participants can undermine the best designed and executed IR strategy at the top.

ESG
Corporate responsibility has irreversibly become a firm component of basically every company's investor story, sometimes with mixed substance, though. While investors' hierarchy of ESG against traditional credit metrics is just about to be acid tested in the current harsh credit environment, one can say that E, S, and G related credit events can have the potential of significant losses and require more than other areas a solid and already communicated ESG strategy that can be used as a crash barrier to mitigate the damage when communicating under time pressure and often the public limelight.

Consistency of strategy with various IR streams
The best story teller in IR does not invent stories but formulates the corporate strategy and its branches like the funding or dividend policy in the most resonating way for each and every recipient relevant for IR. Such recipients may have different mindsets and focus points, time horizons or languages but are still highly interconnected as they focus on the key building stones of the company and its ability to sustainably generate cash flows to service debt, pay dividends or undertake capex, therefore making consistency checks between the various IR communication mandatory.

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