Do we need IR Analytics?

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IR Connect looks at how an IR plan can become much sharper and result-oriented with the help of IR Analytics. Every IRO and CFO should take a careful look into its values and benefits.

It's a well accepted dictum that stock valuations are a function of how corporates maintain their presence with the financial community on a consistent basis. And we all agree that a well crafted Investor Relations (IR) plan is crucial for attaining the best possible stock valuation relative to ones peers over the long term, despite short-term fluctuations in the overall market. To ensure that one is operating on the back of a good plan, a highly analytical approach is the need of the hour for crafting effective investor relations strategies for promoting a long-term view of a company while attracting investors at each stage of the company's life cycle. Analytics have an obvious role in monitoring the success of investor relations activities and signalling when changes in tactics are necessary to maintain a fair valuation consistent with the company's investment characteristics.

Analysing the mix of institutional investors can indicate the investment styles attracted to the company. Comparing the investment styles of the equity holders with the investment characteristics of the investee may be the single best measurement of message clarity and efficient utilisation of management's time.

A mistake we often notice is the overreaction to fluctuations in the stock price or trading volume without fully understanding the drivers and detractors. Another common mistake is to ignore fluctuations under the assumption that management cannot influence liquidity and volatility beyond reporting quarterly or annual financial results. On the contrary, executive management teams have the opportunity to manage their relationships with the financial community as efficiently and productively as they manage the rest of the company. Central to this ability is the availability of good analytics, that can often give new life and meaning to an IR Programme and help avoid such misguided thinking. A more proactive approach to investor relations based upon sound analytics promotes better informed investment decisions and stock valuations which more accurately reflect the company's investment characteristics and prospects for growth. Executives can better manage market expectations by regularly evaluating the effectiveness of their investor relations activities and making course corrections when necessary.

Such analytics can vary in many shapes and forms, but essentially it must focus on evaluating the relationships between stock price, trading activity, investor interest and stock ownership. The trends that one is able to identify out of such analytics lead to more effective investor relations strategies, and more importantly, practical tactics. In other words, daily monitoring is less useful than analysing relevant "big picture" patterns and historical trends. Fully understanding why a stock is trading at a premium or a discount to its peer group and why it appears more or less volatile than others in the peer group, can help signal the need for a course correction in tactics and managing expectations. The issues could include but are not limited to inappropriate shareholder mix or inaccurate investor perceptions.

Expectations management

Incorrect investor perceptions is the most common reason why the common stock of a particular company is mistakenly undervalued. Collecting information about how a company is perceived is very useful and can be accomplished formally or informally. Since perceptions are heavily influenced by investment styles, sample size and selection are very important. The purpose of this analysis is to discover noticeable patterns of investor perceptions for which the company can take further action. Analysing the areas of curiosity and points of confusion requiring further clarification are useful toward resolving misperceptions and improving the effectiveness of future communication. If the investment styles of institutional shareholders are aligned with the investment characteristics of the company and inaccurate perceptions still exist, management may need to make a course correction regarding its communication with the financial community. Comprehensiveness, consistency, accuracy, continuity and timeliness are among the areas for further refinement. A formal investor perception study involves structured interviews with existing and prospective institutional shareholders. Companies usually contract with third parties who can solicit candid feedback with a commitment of anonymity. Some IR service providers, such as Dickenson Seagull, carry out continuous perception studies for its clients, evaluating the positioning of its client as frequently as four times a year.

Outcome – Understanding market expectations & investor perception

- By Tracking Pre-Result Analyst Estimates and Post- Result Change in Analyst Estimates for the Corporate
- Tracking Coverage on the Com-pany and Change in Buy / Sell ratings Post the Quarterly Results
- Understanding the Rationale for the Change in Ratings provides Good Insight into Investor Per-ception

Getting your investor profile right

Analysing the mix of institutional investors can indicate the investment styles attracted to the company. Comparing the investment styles of the equity holders with the investment characteristics of the investee may be the single best measurement of message clarity and efficient utilisation of management's time. Logically, growth stocks should have a large percentage of shares held by growth investors and value stocks should have a large percentage of shares held by value investors. An appropriate shareholder mix helps promote more reasonable expectations for the company's future financial performance, and therefore, a more orderly market for the common stock.

Successful investor relations strategies involve creating sound communications around well-articulated investment characteristics and marketing to targeted prospective shareholders with investment styles that match those investment characteristics. Shareholders will change as the company's investment characteristics evolve over time and monitoring the mix of institutional shareholders on a regular basis will help identify when a course correction in messaging and/or time allocation is necessary.

Outcome – Optimum utilisation of management bandwidth

- By Performing Shareholding Target Analysis – Studying the Shareholding Pattern of Various Domestic as well as Global Peers to meet the Right set of Targeted Buy side Investors for meetings with the Management.
- By Performing Peer Coverage Analysis – Tracking peers covered by which Brokers can target proper Sell side Meetings.

So an analysis of your shareholder mix can be an efficient tool for targeting institutional investors for future changes in your investment characteristics. As your company continues to grow and evolve, your investment characteristics will change and so will your shareholder mix. And the important part about that is that the investment styles of your shareholders definitely influences their perceptions, which can make it difficult to manage expectations if those investment styles do not match your investment characteristics. Therefore, growth stocks should have growth investors; value stocks should have value investors. Growth investors are always seeking stocks with earnings expected to grow faster than the industry in overall market. Value investors are seeking stocks that they believe the market has undervalued despite the company's longterm fundamentals. There are also different segments of value investors, from deep value, looking for significant change in a company to core value.

Peer group analysis

Since portfolio managers contrast and compare the financial performance of companies providing similar products or services, it is beneficial for companies to perform the same analysis and monitor the activities of peers on a consistent basis. The information helps management prepare in advance for interactions with the financial community and facilitates opportunities to display their industry knowledge, correct inaccurate perceptions and/or clarify variances between their company and its peer group. Peer analysis serves another purpose as well. There will be periods when external factors appear to drive the trading activity for a company's stock more than its financial performance and future outlook. Stocks trade with their peer group, their industry and the overall market. Monitoring the stock price and trading activity of a company's peer group can be very helpful toward explaining changes in the company's stock price and trading activity.

Outcome – Business intelligence and peer analysis

- Analysing Domestic as well as Global peers on Financial as well as Operational Parameters.
- Understanding their Key Drivers/ Metrics and Re-positioning accordingly.

In conclusion, by using analytics you have the ability to assess and adapt your activities as you go along. There will be unexpected events; there will be a change in corporate strategy at any given time, expansion, consolidation in your market, new competitive threats, a number of reasons that may take you and cause somewhat of a distraction. So, having an analysis based plan in place is a good thing. Not surprisingly, like other service providers, DICKENSON is an avid believer in analytics, which forms the centrepiece of its multifarious IR services.

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