

A GROWING GULF

INVESTOR RELATIONS LEADERS HAVE MORE
TO DO, WITH LESS RESOURCES TO DO IT

Strategic Communications
FTI Consulting

Companies are facing an investor landscape that is unrecognizable from just a decade ago. Global capital allocation, ubiquitous information and blurring communication channels create the perfect storm where an unprepared company can find itself as a virtual bystander, as others decide its fate in the marketplace.

This new environment has forced companies — and the CFOs and investor relations officers (IRO) who manage investor relations (IR) — to radically reshape the way they communicate and interact with the audiences that affect their company's valuation.

"Just a few years ago, IR was still primarily narrowcasting our story to a relatively small universe of analysts and current or prospective investors," said Thaddeus Vayda, the vice president of IR at Transocean, the global offshore drilling company. "Now, investors are using a variety of information sources and channels — increasingly more from outside our company — to make investment decisions. What this means is that we must do a lot more work to help investors accurately assimilate all of this information as to how it really impacts our company. I can't simply do that solely in an earnings release or conference call."



Still, when Vayda first took on his role at Transocean in 2011, he did so with the confidence that Transocean had both the tools and the experience to navigate this new environment largely on its own.

It's not hard to understand why. Few IROs know their company or industry better than Vayda — who had previously spent five years with Transocean in various financial and operational roles; and a decade covering the oilfield services industry and the company as an equity analyst. He also had the customary set of IR tools — from stock surveillance; to financial and institutional databases; to contact management systems.

Five years ago, this would have been more than sufficient.

Not today, according to Vayda. "I don't need more information. I need more intelligence about what investors are thinking; about what companies or industries activists are targeting; and about what

politicians or regulators are planning in Washington, D.C. or Brussels or Brazil. The scope of my job has just gotten bigger, and I know that is true of plenty of other people in my position."

Long gone are the days when IR was a one-person job with a few off-the-shelf tools and a Bloomberg terminal. Today's IR leaders have more responsibility, more accountability and — in many cases — a bigger role in advising senior management and boards on core business strategy.

But while IR jobs are getting bigger, the resources allocated to investor relations are not.

A recent survey by FTI Consulting discovered a significant gulf between the job IROs have to do, and the resources they are given to do it.

Forty-one percent of IR professionals reported that their current budgets were inadequate to achieve their goals. Even more troubling, 78 percent reported

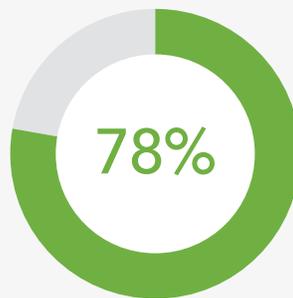
Globalizing Investor Landscape

Investment Community Is Already Globally Oriented



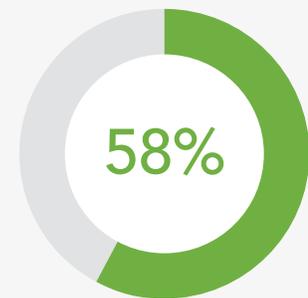
of institutional capital in the U.S. is managed in global funds.¹

Global Competition for Capital Is More Intense



of investors believe there is increasing competition for capital across borders.²

Geographic Boundaries Are Blurring



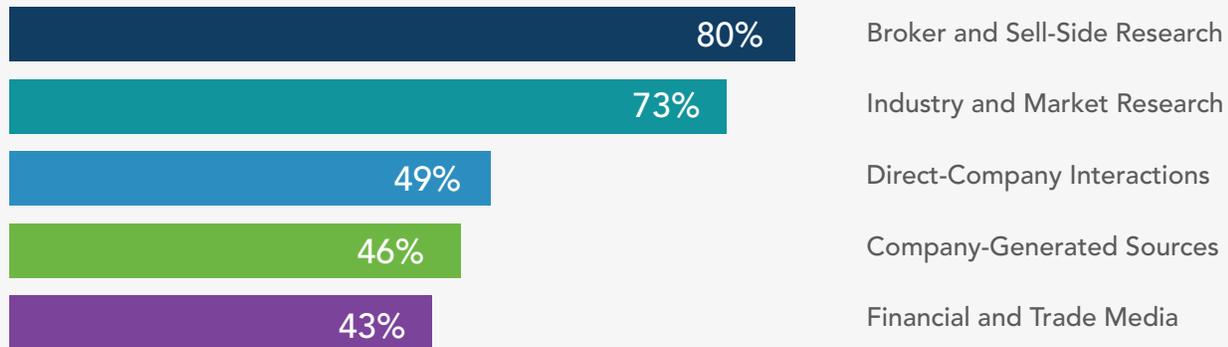
of investors believe companies should expand their marketing efforts to reach a more global set of investors.²

¹Data collected from Ipreo, and analyzed by FTI Consulting.

²Data based feedback collected by FTI Consulting from [113 institutional investors](#), January–February 2014.

Evolving Investor Information Services¹

Information sources important to investors have significantly changed. Now, industry research is nearly as important as sell-side research, and financial and trade media are as important as the information a company puts out on its own — as reaffirmed in the firm’s findings on preferred investor information sources:



¹Data based feedback collected by FTI Consulting from [113 institutional investors](#), January–February 2014.

having little to no budget to handle unexpected — but increasingly common special situations — like crises, leadership changes, M&A transactions, say-on-pay issues and shareholder activism. This represents a significant vulnerability for companies that may gradually find themselves reacting to events instead of shaping them.

Consider the rising tide of shareholder activism, which is being propelled by over 60 dedicated activist funds, with an estimated \$100 billion in assets globally — triple what they had just a few years ago. Recently, FTI Consulting [surveyed](#) a third of the world’s dedicated activist funds, with 90 percent of them saying that they believe activism will increase in the future. Even as 87 percent said they saw “no shortage of targets” in the United States, 40 percent still said they were searching for targets outside of North America as well.

According to a [2013 Citibank report](#), shareholder activism has morphed from, “an occasional threat facing corporate management and boards — to a sweeping trend that has spread to companies in all sectors and of all sizes, and increasingly, across all geographic regions.”

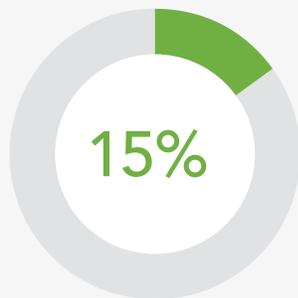
Where activists used to typically target relatively small companies, today they’re going after the biggest, like Apple. Shortly after the investor Carl Icahn announced he had taken a large stake in the company in August 2013, he started pushing for \$150 billion in share repurchases, despite the fact that Apple had already announced one of the biggest dividend and buyback programs in corporate history earlier that year.

If one of the largest publicly traded companies in the world can find itself in the crosshairs of an activist, than no company, and no industry is immune from being targeted.

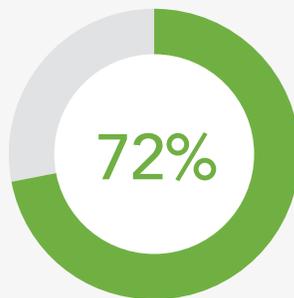
Amid all this tumult around them, IR leaders have maintained their focus on the foundational goals of any successful IR program, reporting in FTI Consulting’s [Global Investor Survey](#) that their top three priorities were: improving the diversity and size of their shareholder base; telling an equity story that aligns with corporate strategy and performance; and improving market performance and/or valuation.

2014 IR Budgets¹

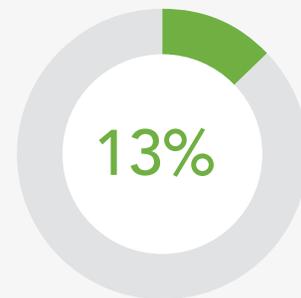
Eighty-seven percent of IROs expect budgets to stay the same or decrease in 2014 compared to last year.



Moderately Lower
Than 2013



Minimal Change
From 2013



Moderately
Higher Than 2013

¹Data based feedback collected by FTI Consulting from 46 IR professionals, November–December 2013.

The problem is that each of these goals is getting more difficult to achieve.

For example, improving your shareholder base (e.g., diversifying, expanding) requires more time, finesse and strategy as companies and their senior management are forced to compete for capital on a global basis.

Meanwhile, an IR leaders' effort to tell a tidy and compelling equity story is increasingly challenged by dissonant noise from activist investors, analysts with an agenda, NGOs, regulators and various other actors that want to squeeze companies and force them to operate on their terms.

With limited budget resources, IR leaders can't always see the threats coming. In FTI Consulting's survey, 69 percent said they used informal investor and/or analyst feedback to measure how aligned their equity story is with corporate strategy and performance.

But these investor insights are too important to rely solely on anecdotal evidence and "word on the

street" impressions. Companies need a precise, independent and rigorous accounting of what investors really care about; whether the story they are telling aligns with what investors are hearing from other information sources; and ultimately, what the triggers are behind investor decision-making.

This intelligence might be the difference between a company getting rewarded by investors for bold moves and given patience during tough times — and a company being abandoned at the first sign of trouble.

Increasingly, it isn't just the pulse of investors that needs to be taken. IR leaders are often forced to weigh in on broader compliance, legal, regulatory and reputational challenges that were previously the domain of corporate communications or public affairs teams within companies.

The upshot is that even the most talented IR leaders are usually faced with too many stakeholders to manage; too much information moving too fast; and too many unforeseen events that they, or their teams, simply cannot handle on their own.

A Mismatch Between Budget Allocation and Resource Importance¹

Investor databases and tools (e.g., contact management system, stock surveillance, targeting tools) are the second largest budget item yet are one of the least valuable contributors to IR goals.

	Importance to Achieving IR Goals	% of Budget
Marketing (e.g., conferences, NDRs)	#1	23%
Investor Days (i.e., company events)	#2	12%
IR Consultants	#3	14%
IR Website (i.e., digital content)	#4	8%
Investor Presentations	#5	4%
Databases and Tools	#6	22%
Annual Report	#7	9%

¹Data based feedback collected by FTI Consulting from 46 IR professionals, November–December 2013.

The simple fact is many traditional IR tools — like institutional databases and stock surveillance — provide plenty of data; but present little real insight, and aren't able to meet IROs' challenges.

IR leaders would do well to reevaluate their budgets, with a particular eye to increasing investments in research and preparedness for unexpected special situations. These tools don't just improve IR programs. They also can help grow an IR budget over time by demonstrating the value of IR programs to company management.

Effective research into what's influencing investor behaviors requires much more than an annual perception study or off-the-shelf investor targeting program. IR leaders need customized intelligence to understand how valuation is tied to what they're say, and who they're say it to — to determine gaps in

messaging or engagement, and to develop detailed program benchmarking and reporting.

In fact, most IR leaders recognize the value of program measurement and of those that do, 93 percent believe it helps orientate management with what matters, particularly the aforementioned issues and actions that can serve as potentially risky "blind spots" to management teams and boards.

A greater investment in research will inevitably help companies better monitor and prepare for the things that can adversely impact enterprise value — be it event-driven corporate developments; or activist moves before or during proxy season to demand changes. The traditional proxy season runs from March 1 to June 1, when approximately half of all publicly held shares are voted at corporate-sponsored annual meetings, and approximately two-thirds of Institutional Shareholder Services (ISS) reports are issued.

Too many companies react to these developments during proxy season instead of proactively managing activist threats, and engaging with institutions and investors in the offseason. Year-round engagement with the right stakeholders can help preserve shareholder value. In some cases, it can even help preserve the jobs of senior management and the board.

Ultimately, today's IR leaders are all facing the same fundamental challenge: They want to provide their management teams with breathing room — to develop plans, to implement them; and to take thoughtful risks — even as other stakeholders are inclined to grant less leeway, and time to do it.

To navigate today's investor landscape, IROs need an array of communications tools and expertise; they need them at different times; and they often won't know in advance what they'll need and when they'll need it. Companies are well-served by investing in those resources before the unexpected inevitably happens.

As Transocean's Vayda said: "Our company certainly appreciates that unexpected external events can affect investor sentiment just as much — if not more than — what is on your balance sheet. So, you have to be prepared and you have to invest ahead of time in the tools and the resources to deal with whatever the marketplace throws at you."

ABOUT FINANCIAL COMMUNICATIONS PRACTICE

Strategic Communications' Financial Communications practice helps clients navigate critical moments of change that affect enterprise value across the entire corporate lifecycle — bringing together experienced professionals from across its service offerings, including:

- Investor Relations
- IPO Communications
- Capital Markets Research
- Mergers & Acquisitions (M&A)
- Proxy Issues & Activist Defense
- Crisis & Issues Management
- Restructuring & Financial Issues
- Change Management

The Strategic Communications segment at FTI Consulting is one of the world's most highly regarded communications consultancies. With more than 25 years of experience advising management teams in critical situations, the segment helps its clients leverage communications to protect and enhance their reputation and enterprise value.

One of the top financial communications practices in the world today, FTI Consulting — Strategic Communications is also ranked one of the foremost global M&A PR advisers by Mergermarket.

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About Us

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Contact Us

Elizabeth Saunders

Americas Chairman
Strategic Communications
+1 312 553 6737
elizabeth.saunders@fticonsulting.com

Bryan Armstrong

Managing Director
Strategic Communications
+1 312 553 6707
bryan.armstrong@fticonsulting.com

Ryan Clancy

Senior Director
Strategic Communications
+1 212 850 5654
ryan.clancy@fticonsulting.com