

Taking a Fresh Look at Investor Relations

A Conversation With Tim Daubenspeck

Brunswick Investor Relations

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Tim Daubenspeck has 20 years of buy- and sell-side equity investment experience investing in companies in North America, Europe and Asia. He advises Brunswick's clients on investor relations, financial transactions, activism and corporate governance and has a background in technology, media and telecoms (TMT). Tim leads the US Investor Relations offering and he and his team have worked with clients across multiple sectors on thesis development, investor days, crisis and financial transactions.

What is the environment right now for investors?

It's clearly a difficult market for institutional and retail investors, given recent stock performance, driven in part by higher rates, higher inflation and what seems to be a looming recession.

On the institutional investor side, we are likely to see additional growth in passive funds and consolidation among active fund managers. That will mean a general overall reduction in the number of portfolio managers on the buy side and analysts on the sell side.

On the retail side, we saw a lot of bad activity in the market during COVID-19, with things like the [meme stock craze](#). Many retail investors lost a lot of capital in that market, shrinking the pool even further, leaving even fewer people for companies and investor relations to coordinate with.

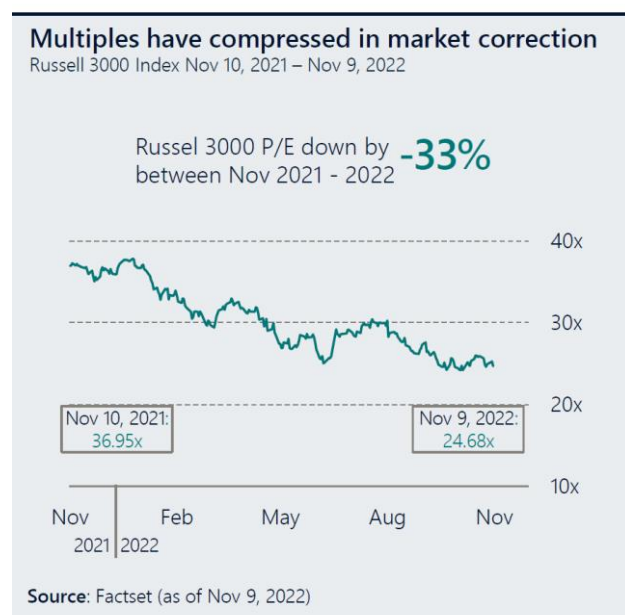
What is the mood among investors?

It's pretty dour. I think most of the investors on the institutional side are licking their wounds and re-evaluating their investment approach after a brutal 2022. We'll probably also see some headcount reductions among sell-side analysts at the investment banks. So they're not just upset about the performance of the market, but also about the health of their industry.

What's the challenge for companies trying to communicate in this environment?

You're going to have fewer investors or a different set of faces amongst your current owners to meet with on earnings calls and at conferences. There will likely be fewer sell-side analysts to cover you. So companies are going to need to be ready to tell a compelling investment story and be more proactive about going out and engaging with investors. The fact is, with the recent volatility in the markets, management needs to find new investors to help bolster their shareholders list.

I expect there will be an increase in the turnover of the shareholder base in the months ahead, so it's very important that companies don't hide, even in a period of turmoil. Given the compression of multiples over the past twelve months, many companies will now be attractive to a whole new set of investors. As momentum investing appears to have lost its luster, companies may start to see increased interest from GARP or value investors. They should be aggressive about getting out there and telling



their story, explaining why they're a compelling investment. The fact is the world has changed dramatically during the last 12 months. It looks entirely different than what we experienced in 2021.

Is the current approach to investor relations still fit for purpose?

Companies need to revisit how they talk to and engage with investors. With the strong performance of equity capital markets prior to 2022, there wasn't a lot of motivation to refresh your investor thesis, to come up with a compelling reason to buy your stock. Everyone benefited from a rising tide.

During COVID, we switched to a virtual environment, and many companies lost those important relationships with investors that come from personal interaction. Even as we have come out of COVID, I do not believe they have been able to regain that closeness.

There's a huge benefit from breaking bread, going eye-to-eye with investors; companies have to re-engage and get back to doing just that.

Interest rates are hundreds of basis points higher than they were just a year ago. Inflation is high. This is a different market than it was a year ago, so you have to adjust your investment thesis to this backdrop.

What specifically needs to change?

The need for transparent and regular updates hasn't changed at all. But companies do have to look at the way they present those updates, so that it's compelling and easy to digest for investors. One of the key responsibilities of investor relations officers is to reduce the friction for investors, to give them the data they need in a very easy and understandable way, to help them make their decisions efficiently.

Another thing we need to do is get back to investor days. Companies have to sit down with their investors and tell their story. We've talked to some companies that haven't held investor days in a decade, and many who haven't had one since the start of the pandemic.

But if you're not meeting your investors on a regular basis to lay out your strategy and your investment thesis, then you're leaving it up to them to discover it on their own. It's too much effort for them, too much friction, and many of them just won't do the work.

Are companies keeping up with rapid changes in media?

There's work to be done. Companies have made strides over the last couple of years, because they realize the importance of speaking to your investor base in myriad ways. Social media is a huge part of it. But it gets even more difficult in this environment. As you have fewer investors to talk to, and fewer sell-side analysts covering you, you have to get creative, and find ways to meet investors where they live. Even institutional investors are pulling information from LinkedIn, Instagram, Facebook and TikTok. They're using every available tool that they have. So it's important for companies to do more in delivering information on all of those platforms, so investors can consume it.

Do companies need to rethink how their IR teams are configured?

Going back 10 years, most people thought of IR as more of a reporting function. But in today's environment, the "relationship" part of investor relations is even more important. So there is work to be done in moving IR to a more proactive approach, going out and prospecting, building up your sales funnel, engaging with investors on a recurring basis and thinking about closing some of these institutional investors to become shareholders. As I said earlier, the sell side is going to shrink over the near term, so IR teams have to go direct even more. That's the mentality. The investor relations executive has to be part salesperson as well subject-matter expert on the company and industry.

What is best practice? What are the habits and behaviors that really stand out?

You have to hold an investor day on a regular basis. It doesn't need to be annually, but it needs to be consistent with whatever your strategic planning cycle is. Call it three to five years. If you have not held an investor day in the last 5 years, you have neglected your investor base.

In terms of earnings calls, you have to have good supporting materials. It can't just be a press release and a transcript or prepared remarks. You need graphics and slides with substantive content.

But the most important thing every company needs is an investment thesis. You need to explain to investors why they should invest in your company. You need to explain to them why the stock is going to go up. If you can't tell that in a very compelling and digestible format, investors don't have the time. The typical portfolio manager owns 60 to 80 stocks and they're looking at another 30 to 40 at any one time. You need to entice them to be interested in taking time and doing the work on your stock.

Is it all gloom and doom for companies when it comes to IR?

Absolutely not. The change in the market presents an opportunity to find new investors. Investors crave stability and abhor volatility. If you can do a good job of telling your story, there is incremental investment money up for grabs. Now is a great time to go out and attract that new core institutional shareholder. Management teams should use this crisis as a means to reset their approach to IR – that effort will pay off when we get to the other side of this correction.

To continue the conversation:

Tim Daubenspeck, Partner, New York
tdaubenspeck@brunswickgroup.com