

Advice Note

Chinese companies listed overseas: communicating with global markets about Coronavirus

BRUNSWICK
博然思维

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PREPARING FOR RESULTS REPORTING THROUGH 2020

The global investment community is bracing for the impact Coronavirus (COVID-19) will have on the financial results of corporates across international markets, and those of Chinese companies in particular given a near closure of the country in recent weeks. There is also specific concern about China's economy overall, with experts warning that the country's GDP growth will take a relatively major hit in at least the first quarter of 2020.

Certainly, as COVID-19 spread into Korea, Japan, the U.S., the Middle East, and countries in Europe, global investor concerns no longer focused exclusively on the impact to China or China related supply chain risks. And even before the majority of listed companies around the world reported 2019 results and 2020 expectations, major global markets experienced their largest contraction in recent history, with investors seeming to try to price in a long-term economic downturn. Volatility will surely continue.

In the nearly 20 years since SARS, China's contribution to the global economy has grown from approximately 4% of global GDP then to 20% in 2019 and the country is responsible for a significant proportion of global GDP growth today. In the same time, the world has become much more interdependent. The number of Chinese companies that are publicly listed in foreign jurisdictions and the levels of investment flows to Chinese companies has increased significantly. Never before have so many publicly traded Chinese corporates needed to explain to the global investment community how they will weather a shared operational and economic storm of such significant proportion.

It is therefore important to identify what the investment community is looking to hear from publicly listed companies in general and Chinese listed companies in particular – during both the current results season and the rest of 2020. To this end, Brunswick's Insight and Investor Engagement teams analysed the earnings materials of more than 3,000 companies across global sectors that reported results between 22 January through 25 February 2020.

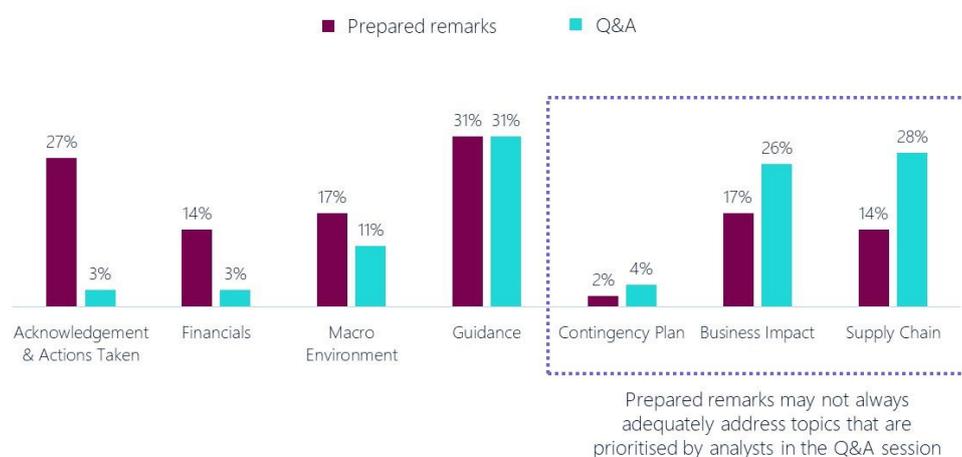
We discuss our findings and recommendations below.

WHAT DO GLOBAL MARKETS WANT TO KNOW?

By the end of February, COVID-19 had become a major part of companies' results disclosures and public statements. Of all the companies across the world that have reported results thus far, approximately 37% mentioned the epidemic in their public earnings calls and this was highest in the Materials, Industrials, IT, and Retail and Consumer sectors.

Taking the Retail and Consumer sector as an example, these companies have felt the immediate impact of the epidemic as stores have shut and consumers, particularly those in Mainland China, have had to stay away. For companies in this sector, 69% of the time the COVID-19 situation was mentioned first in prepared remarks, with management proactively addressing the impact rather than waiting until the Q&A session. Global MNCs for whom the China market is particularly significant, or that employ staff in Mainland China, used earnings calls to highlight measures they have taken to ensure the safety of their team and to address consequential staff shortages and production delays.

Our research also made it clear that the international investment community is looking for significant detail in key areas, in some cases beyond what companies are providing proactively. Unsurprisingly, the largest number of questions focused on overall business impact, implications for the supply chain, and forward-looking guidance.



* Data Sourced Using Sentio

Focusing in more detail on the Chinese companies that are listed in foreign jurisdictions and have reported to date, Brunswick reviewed their results materials carefully to determine what specific questions are being raised by the international investment community in the context of COVID-19. There are a number of common topics and queries that have surfaced thus far and these are therefore likely to be asked of most Chinese company management teams during the remainder of the current results season and beyond.

Financial Impact and Guidance

- Can you shed light on the outbreak's positive and negative financial impacts on your business from both a supply side and demand side perspective?
- What is the estimated impact on revenue and customer demand?
- Have you observed differences in the financial impact on diverse business lines?
- What is your plan on the cost side to mitigate the impact on profitability?
- Can you elaborate on your cash position, burn rate, gearing, and the strength of your balance sheet?
- Can you provide guidance excluding COVID-19 issues so we can gauge the baseline of the underlying business?

Business Impact and Emerging Opportunities

- Do you expect any adjustment to your mid- to long-term operational or financial strategies to fully absorb and navigate through the shock of the outbreak?
- How will a slow in overseas demand impact your business for the rest of 2020?

- What is your best estimate on capacity utilization in the next two to three months and six months, respectively?
- Can you provide color on plans for your international businesses?
- If the situation is prolonged what alternatives will you consider to mitigate the impact?
- Have you experienced changes to the behavior of Chinese users/consumers that has led to new business opportunities?

Recovery

- Have you observed any improvement in the situation on the ground in China in recent weeks and how quickly do you expect the business to fully recover?
- Should we expect a V-shaped or U-shaped recovery trajectory and what are the drivers for this expectation?
- Is there anything that will prevent your business from going back to normal when the situation is resolved?

HOW TO COMMUNICATE WITH THE GLOBAL INVESTMENT COMMUNITY

The global investment community as well as the regulators of foreign listing jurisdictions will have high expectations for Chinese public companies' engagement in the coming months. To meet this need, we recommend the below set of principles to guide your communication with the market.

Approach This as an International Leadership and Governance Issue

The global investment community will look to a Chinese company's communication with international investors as a proxy for your ability to manage through the current crisis period. How well or badly a Chinese company navigates the COVID-19 situation from inside China – and communicates this to global stakeholders – will be regarded as a test of management, and on a world stage. This presents an opportunity to build trust and enhance the global reputation of your company and management team.

Be as Transparent as Possible and Answer the Most Common Questions Before They are Asked

As the investment community works to quantify the effects of COVID-19, companies should communicate as openly as possible about the expected operational and financial impacts. A worst-case scenario is the market misunderstands a company's exposure and the eventual financial impact comes as a surprise. The key objective for Chinese companies is to convey that they are proactively managing the situation and will not hide or delay disclosure of information. This may mean you will need to be slightly more open than you have been in the past. However, both the SEC in the U.S. and SFC in Hong Kong have publicly called for robust disclosure in the current environment and investors will expect this.

Communicate an Honest and Credible Near-Term Outlook

Be very careful with making broad predictions. Instead, commit to and deliver transparent updates as the situation unfolds. In the current environment it is generally acceptable to say that the full extent of the impact is not yet known and it is advisable to be prudent with committing to precise projections and very specific hard guidance. At the same time, explain the impact to date as well as possible and promise to (and do) keep the market fully updated as the situation becomes clearer in the coming months.

Focus the Discussion on the Long-Term Opportunity for China and Your Business

Remind analysts and investors why your business is well positioned overall despite a challenging and unpredictable situation facing China in the near-term. Dedicate significant time outlining your competitive advantages versus local and global peers, what makes the company resilient, how your growth strategy will deliver solid results once the situation normalises, what new opportunities may have surfaced as a result of the COVID-19 situation, and why you are confident in the significant long-term potential of the China market as well as your positive position within it.

ABOUT BRUNSWICK

Brunswick is a strategic advisory firm focused on helping companies navigate critical issues. Along with a worldwide team of experts, we have a deeply experienced team across China who can advise on capital markets related implications of the COVID-19 outbreak. Please do not hesitate to get in touch with us.

Business and Society	Business Resilience	Employee Communications	Investor Engagement	Healthcare	China
Meaghan Ramsey Partner, London	Paddy McGuinness Senior Advisor, London	Jonathan Dong Partner, Beijing	Amelia Pan Partner, London	Charis Gresser Partner, London	Yan Mei Senior Partner, Chair of China, Beijing
Stacey Chow Director, Hong Kong	Lisa Foley Asia Managing Partner, Hong Kong	Nick Howard Partner, London	Tim Daubenspeck Partner, New York	Will Carnwath Partner, Head of Singapore	St. John Moore Partner, Head of Beijing
Liz Dahan Director, Washington DC	Kate Holgate Partner, Head of Hong Kong	Rebekah Metts-Childers Partner, Chicago	Elaine Li Partner, Hong Kong	Yi Zhou Director, Hong Kong	
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